L BANK
OF CANADA

1996 Annual Report

growth through quality and innovation

INCLUDES ANNUAL INFORMATION FORM DATED DECEMBER 4, 1996

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ROYAL BANK

ohn E. Cleghorn
hairman and Chief Executive Officer

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Montreal, Québec H3C 3A9

Royal Bank Plaza
Head Office - P.O. Box 1
Toronto, Ontario M5J 2J5

January 22, 1997

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Common Shareholders of the Bank which will be held on Wednesday, March 5, 1997 at 11:00 a.m. (Pacific time) in Exhibit Hall A of the Vancouver Trade & Convention Centre, 999 Canada Place in Vancouver, British Columbia. Particulars of the agenda for the meeting appear in the enclosed Management Proxy Circular.

The following material pertaining to the meeting is enclosed:

- *Notice of the Annual Meeting of Common Shareholders and Management Proxy Circular;*
- *Annual Report, containing the audited financial statements of the Bank for the year ended October 31, 1996 and Management's Discussion and Analysis of Financial Condition and Results of Operations; and*
- *Form of Proxy for exercising voting rights.*

Kindly complete and sign the Form of Proxy and return it in the enclosed envelope to our transfer agent, Montreal Trust Company of Canada, at least 48 hours prior to the meeting.

Sign language will be provided at the meeting.

We would be pleased to send you, upon request, our Quarterly Reports to Shareholders for 1997, which contain our quarterly financial statements. To request these reports, please complete the card at the bottom of the Form of Proxy, and return it with your Proxy in the postage paid envelope provided.

Yours sincerely,

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gest in mutual funds (first among bank-owned funds), and own
Dominion Securities. Our discount brokerage operation is the
rank among the top generators of life insurance premiums (first
trade finance, correspondent banking and treasury services are
on is the largest and most profitable among Canadian financial

branches and offices, more than 4,200 automated banking
0 point-of-sale merchant terminals. Approximately 870,000
out 2,000 new customers are being enrolled daily. PC home
ver the Internet by the spring of 1997. The Mondex electronic
1997.

ank's financial and share price performance. The Royal Bank
ipation rate and owns more than 4% of the bank's common
inside back cover.

ely held. The shares trade on exchanges across Canada, in the
he New York Stock Exchange. Our market capitalization was
$13.8 billion at October 31, 1996.

Corporate Profile 1
1996 at a Glance 2

Royal Bank Financial Group

- has leading positions in Canada in most financial service markets
- has growing and profitable global operations in 35 countries

Products and Services Our products and services are provided to nearly 10 million consumer and business customers in 35 countries. In Canada, we have leading market shares in residential mortgages, consumer loans, personal deposits and Canadian dollar business loans. We are also the largest money manager, third largest in mutual funds (first among bank-owned funds), and own the largest and most profitable full-service investment dealer, RBC Dominion Securities. Our discount brokerage operation is the second largest in Canada and growing rapidly, while in insurance we rank among the top generators of life insurance premiums (first among banks). Internationally, corporate and investment banking, trade finance, correspondent banking and treasury services are provided to business customers. Our global private banking operation is the largest and most profitable among Canadian financial institutions, and we have a large retail network in the Caribbean.

Delivery Network Our delivery network includes nearly 1,600 branches and offices, more than 4,200 automated banking machines, over 500 self-service account updaters and some 50,000 point-of-sale merchant terminals. Approximately 870,000 customers currently use Royal Direct telephone banking, and about 2,000 new customers are being enrolled daily. PC home banking will be launched in December 1996 and will be available over the Internet by the spring of 1997. The Mondex electronic cash card is being piloted and national rollout is scheduled for late 1997.

People Our 54,700 employees have an important stake in the bank's financial and share price performance. The Royal Bank Employee Savings and Share Ownership Plan has an 89% participation rate and owns more than 4% of the bank's common shares. Further information about our employees is provided on the inside back cover.

Common Shares (RY) Our 310 million common shares are widely held. The shares trade on exchanges across Canada, in the United Kingdom and Switzerland and, since October 1995, on the New York Stock Exchange. Our market capitalization was $13.8 billion at October 31, 1996.

1996 at a glance

the virtual bank

by phone Royal Direct, Royal Bank's telephone banking service, reaches the 870,000 customer mark, making it one of the largest and fastest-growing telephone banking operations in the world. ▸ A new toll-free telephone line is introduced, allowing Royal Mutual Funds investors to buy, sell, make transfers between funds and perform other operations. **over the net** Royal Bank becomes the first Canadian financial institution to offer pre-approved mortgages over the Internet. ▸ VeriFone Inc. and Royal Bank work together to deliver the first secure, Canadian, end-to-end Internet commerce solution which would enable consumers to buy products and services over the World Wide Web using their credit cards. **via PC** Royal Bank Action Direct Inc. launches PCAction, a new, proprietary, Windows-based software which enables clients to manage their discount brokerage accounts and make trades electronically by personal computer. **by ABM** Royal Bank becomes the first financial institution in Canada to offer access to both the Cirrus and Plus networks at its 4,215 personal touch banking and cash counter machines in Canada.

growth through acquisitions

In January, RBC Dominion Securities acquires the equity research, sales, trading business and certain assets of Hambros Equity UK Limited, a subsidiary of Sydney-based Hambros Australia.

▸ RBC Insurance Holdings Inc. buys Westbury Canadian Life Insurance Company effective January, adding 150,000 policyholders and $90 million in annual gross premiums.

▸ In August, Royal Trust acquires the institutional and pension custody business of TD Bank and Trust, including approximately $47 billion of client assets under administration.

▸ On November 1, 1996, Royal Bank Financial Group acquires all of the outstanding shares of Richardson Greenshields, a full-service investment dealer.

consumer products

new A new *Visa* Classic II card is launched, offering instant retail discounts, bonuses, points, gift certificates, purchase protection and a number of travel features. ▸ In an alliance with CIBC and Bell Canada, Royal Bank pilots the Mondex electronic cash card in Guelph, Ontario, the first city in North America and the second in the world (after Swindon, England) to participate. ▸ A new "Yes, You Can" Mortgage brings together in a single product several features that first-time home buyers indicate are important to them. ▸ Royal Bank opens its first personal investment boutique in Canada's largest underground shopping plaza in downtown Toronto.

improved An annual multi-trip option is added to Royal Bank Travel HealthProtector out-of-country emergency medical insurance for Canadians making frequent trips out of the country.

▸ Since August 1, 1995, a revamped Canada Student Loan Program dominates the market with a 54% market share, and a total portfolio of $3.4 billion, positioning Royal Bank as the clear market leader.

▸ Enhanced access to Royal Credit Line, a personal line of credit for individual customers, is made possible via ABM.

forging alliances

A new co-sourcing enterprise, Symcor Services Inc., is launched by Royal Bank, Bank of Montreal and The Toronto Dominion Bank to handle high-volume document processing for all three institutions. By pooling resources, the three banks will achieve the economies of scale required to compete effectively in an environment of reduced paper-based transactions.
▸ Royal Bank is the only Canadian participant in Integrion Financial Network, a consortium of companies, including IBM and 16 leading North American banks. The consortium will develop a shared technology allowing participating financial institutions to offer comprehensive home banking, electronic commerce and on-line information services to consumers and small business customers in the U.S. and Canada.

fuelling the new economy

Royal Bank and the Business Development Bank of Canada form a strategic alliance to help fill a gap in traditional lending patterns for "new economy" small businesses in Southern Ontario.
▸ Royal Bank becomes the first Canadian chartered bank to lend against foreign (non-Canadian and non-U.S.) accounts receivable to six key European and Asian Pacific countries, making it easier for small and medium-sized Canadian firms to participate in the export market.
▸ Royal Bank enters into a partnership arrangement called ViaTech, to provide banking, legal, accounting and marketing support to new and existing technology businesses.

Investor milestones

The quarterly dividend on Royal Bank common shares is increased by 3 cents to 34 cents for the dividend paid May 24 to shareholders of record on April 24. This is the second dividend increase in six months.

◆

On September 12, Royal Bank announces the repurchase of up to 10% of the public float of its common shares.

major underwritings

Royal Bank joins Citibank and National Westminster Bank as lead underwriter of one of the year's most complex financings, a 300 million pound sterling bank loan for Lloyd's of London. RT Capital Management Inc., the institutional investment arm of Royal Trust, is named to manage the Canadian fixed income portfolio of Equitas, the reinsurance vehicle established by Lloyd's of London's recovery plan. ▸ Royal Bank is lead underwriter of a \$3 billion facility for NAVCanada, the largest corporate bank financing in Canadian history. RBC Dominion Securities is chosen as the adviser to develop the financial arrangements.

small business initiatives

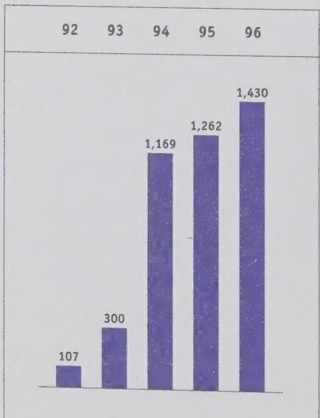
Almost 3,500 CreditLine credit cards for small business are approved in the first month following the service's introduction. It represents Canada's first card-based line of credit for small business featuring attractive client benefits and credit granted on an individual's scoring. ▸ A simplified loan program makes it easier for Canada's more than two million small business owners to obtain financing by simply mailing in a simple, two-page application form. ▸ Royal Bank commits up to \$300 million to a new small business loan program focusing on growth and export-oriented small businesses, which provides more flexible lending terms and collateral security requirements.

new global trading unit

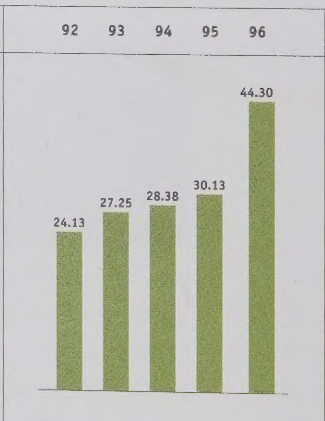
Royal Bank and RBC Dominion Securities integrate several key trading functions under the banner of RBC DS Global Markets. This combined trading unit operates out of 20 locations including London, New York, Singapore, Montreal, and a new state-of-the-art Toronto trading room. The strengths of both organizations have been brought together to provide clients with a single-window access to the world's financial markets.

	1996	1995	1994	1993	1992
Earnings Data *(For the year ended October 31)*					
Gross revenues *($ millions)**	$7,941	$7,317	$7,391	$6,550	$6,095
Provision for credit losses *($ millions)*	440	580	820	1,750	2,050
Non-interest expenses *($ millions)*	5,112	4,657	4,661	4,415	3,917
Net income *($ millions)*	1,430	1,262	1,169	300	107
Return on assets	.74%	.73%	.70%	.21%	.08 %
Return on common shareholders' equity	17.6%	16.6%	16.8%	2.4%	(0.3)%
Balance Sheet Data *(As at October 31) ($ millions)*					
Total assets	$217,950	$183,652	$173,079	$164,941	$138,293
Loans	135,791	119,577	115,386	116,469	100,137
Deposits	161,817	143,491	135,815	130,399	112,222
Subordinated debentures	3,627	3,534	3,477	3,442	3,127
Preferred shares	1,752	1,990	2,266	2,248	1,594
Common shareholders' equity	7,662	7,042	6,323	5,682	5,912
Capital Ratios *(As at October 31)*					
Tier 1 capital ratio	7.0%	6.9%	6.4%	5.9%	5.9%
Total capital ratio	9.4%	9.8%	9.6%	9.3%	9.2%
Common equity to risk-adjusted assets	6.0%	5.8%	5.3%	4.9%	5.2%
Common Share Information *(For the year ended October 31)*					
Shares outstanding *(thousands)*					
– end of period	310,529	314,155	314,155	314,155	314,155
– average	314,121	314,155	314,155	314,155	310,543
Earnings (loss) per share	$ 4.09	$ 3.49	$ 3.19	$ 0.46	$ (0.05)
Dividends per share	1.33	1.18	1.16	1.16	1.16
Share price – High	44.40	31.38	31.88	28.88	29.00
– Low	29.75	25.88	25.13	22.00	21.50
– Close – October 31	44.30	30.13	28.38	27.25	24.13
Book value per share – October 31	24.67	22.42	20.13	18.09	18.82
Market capitalization *($ billions)*	13.8	9.5	8.9	8.6	7.6
Number of: *(As at October 31)*					
Employees – Total	54,728	55,721	55,987	60,064	56,749
Full-time equivalent	48,205	49,011	49,208	52,745	49,628
Service delivery units					
Domestic	1,493	1,577	1,596	1,731	1,661
International**	103	105	97	95	83
	1,596	1,682	1,693	1,826	1,744
Automated banking machines	4,215	4,079	3,948	3,981	3,828

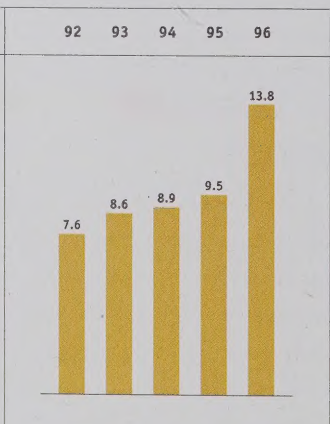
* *Taxable equivalent net interest income and other income.*
** *International service delivery units include branches, representative offices, agencies and subsidiaries.*



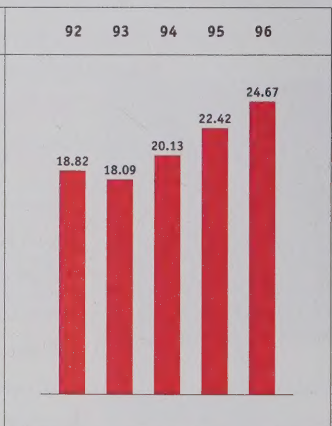
NET INCOME
($ MILLIONS)



COMMON SHARE PRICE
($, AT OCTOBER 31)



MARKET CAPITALIZATION
($ BILLIONS, AT OCTOBER 31)



BOOK VALUE PER SHARE
($, AT OCTOBER 31)

vision

Our Vision is to be Canada's premier global financial services provider, with committed people working as a team to exceed customer and shareholder expectations.

focus

Our Focus is on improving performance in each of our businesses to achieve consistent and superior returns for our shareholders.

priorities

Our Strategic Priorities are to grow and diversify our revenues, improve our efficiency and maintain a quality risk profile.

WE HAVE EARNED OUR CUSTOMERS' BUSINESS BY ANTICIPATING AND MEETING THEIR NEEDS, PROVIDING THEM WITH INNOVATIVE, QUALITY SERVICES AT A COMPETITIVE PRICE. WE ARE ALSO COMMITTED TO DELIVERING TO OUR SHAREHOLDERS SUPERIOR, CONSISTENT RETURNS ON THEIR INVESTMENT.

chairman's message

quality and innovation are central to our growth

We became Canada's leading financial institution, one customer at a time, through our commitment to delivering innovative and high quality products and services. We have earned our customers' business by anticipating and meeting their needs, providing them with what they want at a competitive price. We are also committed to delivering to our shareholders superior, consistent returns on their investment. 1996 represented the third successive year of record earnings for Royal Bank Financial Group. We are moving purposefully and with clearly defined goals and strategic priorities to ensure the continued growth and future success of our Group and enhancement of shareholder value.

Here are a few highlights of our performance for the year: ▸ **Return on common shareholders' equity** of 17.6%, up from 16.6% in 1995 and above the midpoint of the range of 16-18% that we have as one of our 3-5-year goals. ▸ **Net income** of $1,430 million, up 13% from 1995, and earnings per share of $4.09, 17% higher than in 1995. ▸ **Revenues** up 9%, with other income 16% higher and representing two-thirds of revenue growth. We achieved these results in a period of intense competition marked by narrowing interest spreads. ▸ Further improvement in **credit quality**, with the provision for credit losses down to .34% of average loans and bankers' acceptances from .48% last year, and net impaired loans down to .4% of total loans and bankers' acceptances from .9% a year earlier. ▸ Stronger **capital position**, with common equity to risk-adjusted assets up from 5.8% a year ago to 6.0%, even after the repurchase of 3.6 million common shares this year. ▸ **Total return to common shareholders** of 51% with share price up 47% between October 31, 1995 and October 31, 1996.

We see continued strength in the bank's performance, reflecting a favourable economic environment and our own strong position and strategies for growth.

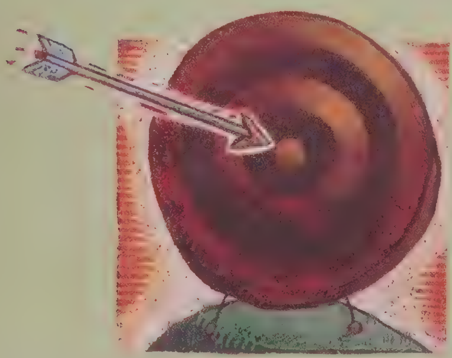
As Canada's premier, and one of its most profitable, global financial institutions dealing with one in three Canadians, we will continue building on our strengths. They include a leading market position in Canada in most of our businesses, an exceptionally strong position in high-growth fee-based businesses, a well-focused and profitable international business, one of the highest debt ratings in North America (Aa2 senior debt rating from Moody's), strong profitability and a sound balance sheet. Our vision, focus and strategic priorities, set out on page 5, continue to serve us well. They seek to capitalize on important changes our industry is undergoing worldwide (as described in the article on pages 14-15).

In addition to our medium-term financial goals laid out and discussed on pages 38 and 40, we are providing, for the first time this year, annual objectives on which we will report to you next year.

Our three strategic priorities, relating to revenue growth, efficiency and risk profile, should allow us to achieve these objectives and our longer-term financial goals.

our objectives for 1997

We have set the following objectives for Royal Bank Financial Group for 1997. In next year's annual report, we will review our performance compared to these objectives and set further targets for 1998.



- **Objective 1: Total return to common shareholders**
  Provide a total return to common shareholders in 1997 that is in the top quartile of the return for the TSE Banks and Trusts Index.
- **Objective 2: Revenue growth**
  Grow revenues by 5% in 1997 and enhance market shares in traditional banking products.
- **Objective 3: Efficiency**
  Improve the efficiency ratio by at least 100 basis points.
- **Objective 4: Portfolio quality**
  Improve the ratio of provision for credit losses to average loans and bankers' acceptances from this year's level of .34%.

revenue growth

Revenue growth and diversification remains our top strategic priority.

We will look for profitable growth that builds and strengthens our market competitiveness and shareholder value, paying particular attention to businesses with relatively high returns on equity, high price/earnings multiples and above-average prospects for profitable growth. ▸ More specifically, as the North American population continues to age and moves from a borrowing to an investment cycle, we intend to grow rapidly in **high-potential businesses,** which are the wealth management businesses discussed on pages 28-32, as well as insurance and trade finance. These businesses are largely fee based, need relatively little capital, and in most cases generate high returns on equity.

▸ Our three main acquisitions this year (in insurance, retail brokerage and securities custody, p. 39) all fall in this high-potential segment and attest to our commitment to growing this important side of our operations.

▸ Despite strong competition, which we have aggressively countered, our traditional **intermediation businesses** continue to perform well. There is still room to grow in the consumer businesses in Canada, where we want to extend our leadership through new delivery channels, product innovation, and effective sales and service. The small and medium-sized business market also offers opportunities for growth.

▸ We want to increase the proportion of the Group's earnings from **international operations.** There, our approach will continue to be selective and opportunistic, focusing on high-potential businesses and markets. We are ready to grow and diversify our business both by expanding existing operations and through acquisitions, joint ventures and alliances that benefit our shareholders. We plan to grow primarily in the United States, our first priority outside Canada. We also see opportunities for growth in Asia, Europe and Latin America. Our focus in these markets, as elsewhere, will be on the high-potential businesses just mentioned.

THIS REPORT

OUR REPORT THIS YEAR HAS BEEN EXPANDED TO PROVIDE ADDITIONAL INFORMATION OF INTEREST TO SHAREHOLDERS. IN ADDITION TO AN ENLARGED YEAR-AT-A-GLANCE SECTION, PP.2-3, WE DRAW YOUR ATTENTION TO:

- OUR PERFORMANCE FOR SHAREHOLDERS, P. 11;
- OUR OBJECTIVES FOR 1997, P. 7;
- FINANCIAL RESULTS BY LINE OF BUSINESS, PP. 21 36.
- ANSWERS TO QUESTIONS OFTEN PUT TO US BY THE INVESTMENT COMMUNITY, PP. 12-13;
- AN ARTICLE ON INDUSTRY TRENDS, PP. 14-15;
- MORE ABOUT QUALITY AND INNOVATION, PP. 16-17; AND
- SOME KEY FACTS AND FIGURES CONCERNING OUR OTHER STAKEHOLDERS – CLIENTS, EMPLOYEES AND THE COMMUNITIES WHERE WE WORK, INSIDE BACK COVER.

MEASURING SUCCESS

EXTERNAL BENCHMARKING (MEASURING OURSELVES AGAINST THE MARKET) HAS BECOME THE RULE AT ROYAL BANK.

BENCHMARKING IS SEEING WHAT THE BEST ARE DOING AND HOW YOU COMPARE. DURING THE PAST YEAR, MOST OF OUR BUSINESS UNITS HAVE SET COMPETITIVE BENCHMARK GOALS AGAINST OTHER LEADING FINANCIAL INSTITUTIONS. WE ARE NOW DOING THE SAME THING WITH OUR FUNCTIONAL GROUPS THAT SUPPORT OUR BUSINESS AND GEOGRAPHIC UNITS.

WHILE WE ARE OFTEN SHOWN TO BE THE BEST, WE WILL CONTINUE BENCHMARKING. IT HELPS TO KEEP COMPLACENCY IN CHECK.

efficiency

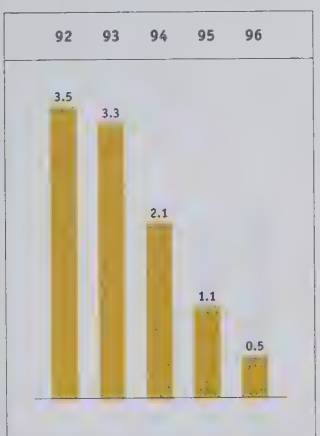
We are determined to improve efficiency to enhance returns to shareholders.

In 1996, our efficiency ratio (non-interest expenses as a percentage of gross revenues) slipped by 80 basis points from 1995, to 64.4%, compared with our 3-5-year goal of 58%. This resulted from high expenses – and earnings – at our investment dealer in the recent strong capital market environment, as well as from vital investments in high-growth businesses such as telephone banking and discount brokerage, and spending on initiatives designed to enhance revenue and efficiency. Details are provided on pages 47-48.

In 1997, we aim to improve the efficiency ratio by at least 100 basis points or one percentage point.

risk profile

We remember well the lessons of previous credit quality deterioration and have acted on them.



NET IMPAIRED LOANS
($ BILLIONS)

As a result, this strategic priority, which first called for improvement, now centres on maintaining a quality risk profile.

We have considerably improved our risk profile over the past few years. In 1996, our impaired loans and provision for credit losses continued their downward trend. We also added $400 million to our general provision this year, taking it to $700 million. Our management of market risk was also further enhanced this year. A detailed account of risk management appears on pages 51-56.

THE ECONOMY

THE OUTLOOK FOR 1997 FOR THE CANADIAN ECONOMY IS FAVOURABLE. IN 1997, WE EXPECT THAT INTEREST RATES WILL REMAIN LOW, THE CANADIAN DOLLAR WILL STRENGTHEN MODESTLY, AND ECONOMIC GROWTH WILL DOUBLE WITHOUT BUILDING INFLATIONARY PRESSURES. THIS WILL BE GOOD FOR OUR CUSTOMERS, AND THEREFORE FOR US.

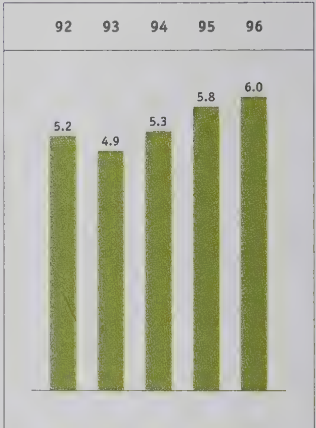
OUR EMPLOYEES

AS A SERVICE PROVIDER OUR PERFORMANCE DEPENDS ON THAT OF OUR EMPLOYEES. IN MANY WAYS, THEY ARE THE KEY TO OUR SUCCESS. OUR STRONG RESULTS THIS PAST YEAR ARE A DIRECT REFLECTION OF THEIR COMPETENCE AND DEDICATION IN SERVING CUSTOMERS WELL AND OPERATING EFFICIENTLY.

TO THE 54,700 WOMEN AND MEN OF ROYAL BANK FINANCIAL GROUP IN CANADA AND WORLDWIDE, WE OFFER SINCERE THANKS FOR THIS YEAR OF SUCCESS AND PROGRESS.

Sound management of capital is also important for enhancing shareholder value.

Our strong earnings this year enabled us to build capital internally and to achieve our goal of 6.0% for common equity to risk-adjusted assets by July 31, 1996. This allowed us to announce a share repurchase program on September 12, whereby we would buy back up to 10% of our public float over the next 12 months. We have also redeemed $509 million of preferred shares since July 1995 and announced two dividend increases in that time. The shareholder is foremost in our minds. There is further discussion of this subject on pages 72-76.



COMMON EQUITY TO RISK-ADJUSTED ASSETS (%)

Our strategic priorities will guide our future financial performance. We are confident that, building on our strong fundamentals and capitalizing on our greatly improved financial performance of the past three years, they will continue to stand us and you, our shareholders, in good stead.

JOHN E. CLEGHORN
CHAIRMAN & CHIEF EXECUTIVE OFFICER

performance for shareholders

overview Royal Bank Financial Group's overriding objective is to provide superior rates of return to its shareholders. In that regard, the following actions were taken in 1996:

- the quarterly common share dividend was increased by 3 cents or 10% to 34 cents;
- $237 million of preferred share capital was redeemed, lowering preferred dividends by $5 million and enhancing earnings per share;
- a program to repurchase up to 10% of the public float of the bank's common shares was launched.

To enhance shareholder value, the Group has set medium-term (3-5 year) financial goals, including goals for return on equity of 16-18%, and for dividend payout of 30-40%. Among additional indicators tracked are the one-year total return to shareholders and growth in earnings per share.

KEY GOALS

Return on common shareholders' equity (ROE)

Target: 16-18%
Performance: The bank's ROE of 17.6% was in the top quartile of its target range and was up from 16.6% in 1995. ROE is the key measure for determining employee bonuses, particularly in the case of senior management, and for measuring the performance of each business.

Dividend payout ratio

Target: 30-40%
Performance: The dividend payout ratio in 1996 was 32.5%, within the target range. Dividends per common share were $1.33 for the year, up 15 cents or 13% from 1995, reflecting a 3 cent increase in the quarterly common share dividend in the second quarter of 1996, and a 2 cent increase in the fourth quarter of 1995.

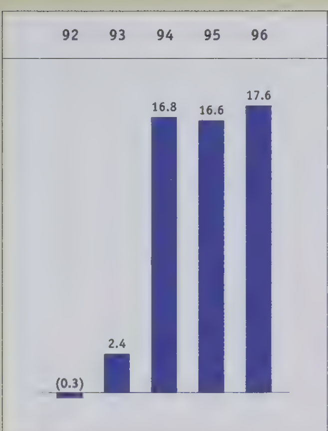
OTHER INDICATORS

Total return to common shareholders (one-year)

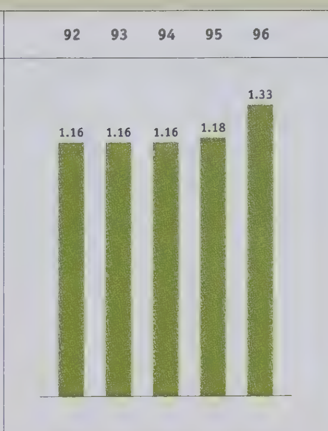
Target: A one-year total return in the top quartile of the TSE Banks and Trusts Index
Performance: The bank's one-year total return of 51.4% in 1996 exceeded the average return for the TSE Banks and Trusts Index of 43.4% and placed in the Index's top quartile.

Earnings per share

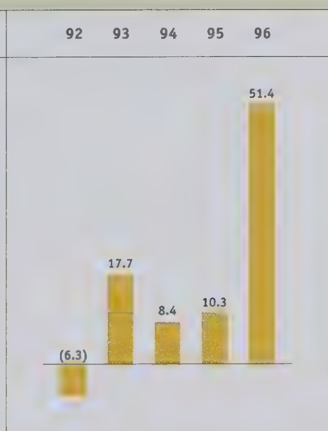
Target: Annual growth of at least 10%
Performance: Earnings per share were up 17% from a year ago – 400 basis points greater than the growth in net income due largely to lower preferred share dividends (stemming from preferred share redemptions). The share repurchase plan, commenced near the end of 1996, is expected to have a positive impact on earnings per share in fiscal 1997.



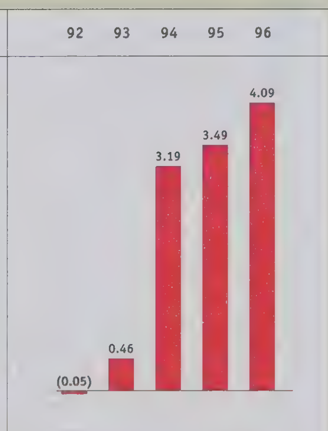
RETURN ON EQUITY
(%)



DIVIDENDS PER SHARE
($)



TOTAL RETURN TO SHAREHOLDERS
ONE-YEAR (%)



EARNINGS PER SHARE
($)

tough questions straight answers

DURING 1996, WE WERE FREQUENTLY ASKED THE FOLLOWING QUESTIONS BY INVESTORS AND ANALYSTS. HERE ARE OUR ANSWERS.

1. How will you achieve your 58% efficiency target?

Through a combination of revenue growth and tight cost control. As outlined under the business discussions on pages 21-36, our wealth management businesses, as well as insurance and financial institutions and trade, have fairly aggressive revenue growth targets. They have outlined their strategies for meeting those objectives.

As for costs, we have initiatives in place that will take $300 million out of our cost base by the year 2000. Among them is a review of our base of purchased goods and services which total over $1.4 billion (the second largest bundle of costs after staff costs). This initiative alone should reduce our cost base by $100 million in just over two years.

We are also reconfiguring our branch network, combining units of the bank with those of Royal Trust and RBC Dominion Securities, aggressively taking administrative functions out of the branches, and reducing required branch space. This will result in substantial cost savings.

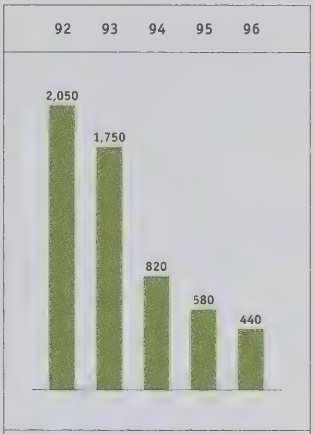
Greater use of alternative delivery channels by customers will also lower our cost structure. We expect customers to conduct 95% of routine transactions through alternative channels by the year 2000 and close to 100% by the year 2005, up from 83% now.

We are also pursuing opportunities for co-sourcing and out-sourcing. Our agreement with two Canadian bank competitors last July to combine high-volume document processing should result in annual cost savings of $30 million in three years. Our participation in Integrion Financial Network (see page 3) will allow us to share the cost of developing the middleware to connect consumer electronic devices to our host systems.

Our mix of businesses, with a high proportion of personal, wealth management and investment banking activities, makes it a challenge to achieve a low efficiency ratio. These businesses have high efficiency ratios but also high returns on equity.

2. Has your credit quality peaked?

We expect the provision for credit losses in 1997 to be lower than this year's level.



PROVISION FOR CREDIT LOSSES
($ MILLIONS)

3. What is your acquisition philosophy?

Our philosophy is to acquire, at reasonable prices, companies in predominantly fee-based businesses with strong growth prospects, that would provide good revenue and cost synergies. Our acquisitions this year, and over the past few years, have met these criteria.

The United States is an attractive market, but our desire to conduct acquisitions at reasonable prices has precluded any recent deals.

4. Will you increase dividends if you're also repurchasing shares?

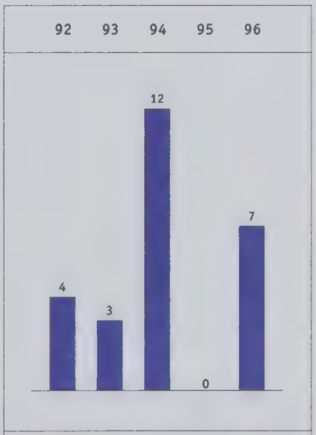
We don't believe share repurchases preclude dividend increases. We have stated in the past that if earnings are growing steadily, then in the normal course of events, dividends should rise too.

Our dividend payout target is 30-40% and we intend to remain in that range.

5. What is the outlook for your loan growth and net interest margins?

The expected strength of the Canadian economy leads us to be fairly optimistic about loan growth in 1997, which we expect to be in the mid-to-high single digits.

We expect core margins (that is, excluding the impact of securities gains and LDC income) to remain fairly flat. The compression of the prime rate over core deposit funding costs is expected to be offset by the renewal of term deposits at lower rates and by a higher-yielding asset mix.



GROWTH IN AVERAGE LOANS OUTSTANDING
(%)

financial services industry trends

Preparing for the 21st century, the financial services industry finds itself in a period of sweeping change, both in Canada and globally. Banks and other financial services providers must adapt to changing demographics, growing customer needs and expectations, rapidly evolving technology, the globalization and re-regulation of financial markets, and increased competition alongside industry consolidation.

Responding to these trends, banks around the world are launching new products and exploring new channels to distribute them. They are forming alliances with both their traditional and emerging competitors, and entering whole new lines of business activity.

The impact of demographics

In North America, ten thousand people turn 50 years old every day. As the baby boom generation ages, it is shifting from consumption to saving and investment. The boomers need fewer credit products such as consumer loans and mortgages, and more investment products like mutual funds and equities, as they seek higher returns for retirement.

The boomers, upon inheriting the assets of their parents, will need more wealth management services such as full-service and discount brokerage, investment management, trust administration, estate planning and private banking. In response, some financial institutions will move to more such fee-based services, positioning themselves to meet these needs. Meeting these needs is key to Royal Bank's strategy, as noted on page 8, and in the discussion of our wealth management businesses.

Convenience redefined

Clients, especially time-pressed boomers, seek simplicity and convenience in their banking. Once defined by where you banked, convenience will increasingly be marked by how and when you bank. Clients are becoming used to delivery channels other than the branch network, that enable them to bank from home or office at any hour. Telephone banking and PC-based banking, including transactions over the Internet, are expected to grow rapidly.

Convenience will be available in other ways as well. Automated banking machines can also be used to sell mutual funds, insurance and travellers' cheques, and take loan applications. Debit cards are increasingly replacing cheques, and stored value cards that contain electronic cash are being piloted in North America. Royal Bank initiatives in these areas are documented throughout this annual report and particularly on pages 23-25.

Branches as relationship centres

The outcome for many financial institutions is likely to be a refocusing or a reduction in the number of branches. Some may become "virtual banks" with no branches, but the challenge for most will be to reorient their branch networks to become more sales focused and thus generate higher revenues.

Front-line personnel are already shifting from a product focus to a customer focus, as they become responsible for managing the full customer relationship. For some, this adaptation may include the use of technology to serve specific market segments, and financial planning to package products to meet each client's unique needs. To perform these functions, bank personnel are learning sophisticated new skills. In 1996, Royal Bank invested approximately $90 million in employee training and development. (See page 17 for a number of customer-focused initiatives).

Technology: the driving force

Computers and telecommunications enable banks to provide customized products and services based on clients' needs. This same technological revolution also benefits business clients. Banks are able to combine payment details and other financial data into a single stream to provide a powerful information management tool for their business clients. Moreover, a growing proportion of company-to-company payments will be done through Electronic Data Interchange (EDI).

Such innovations are costly. Bank outlays on technology are rising at a much faster rate than during the first half of the 1990s. Banks are forming alliances, both with each other and with high-tech companies, in order to spread the cost.

Royal Bank is pioneering the Mondex electronic cash card in Canada in association with another major Canadian bank. Royal Bank has also joined four U.S. banks and a software company to develop PC-based banking. Integrion Financial Network, a consortium of IBM and 16 leading banks, including Royal Bank, has been created to offer comprehensive home banking electronic commerce, and on-line information services to consumers and small business customers throughout North America.

The global financial village

Technology is also driving the trend toward globalization. The reach of telecommunications and the power of computers have helped integrate national capital markets into an interlinked global capital market. No longer are corporations limited to borrowing exclusively from their domestic banks or floating share issues only in their domestic capital markets to finance expansions.

Instead, companies now migrate from credit providers to capital markets, taking advantage of relatively new financial instruments such as asset securitization, high-yield debt and derivatives. Banks, which historically have been financial intermediaries, are having to follow their corporate clients and, in the process, become capital market intermediaries. Increasingly, banks have to structure credit, investment and risk-management products into integrated financial solutions customized to each corporate client's needs. That means corporate bankers are increasingly working with investment bankers. Canadian banks are likely to be niche players in global finance rather than attempting to compete, in every sector and every region, against the behemoths of the industry.

Canadian banks can succeed by leveraging the industry expertise they have acquired at home to follow their clients into foreign markets. The banks may, however, have to bolster their investment banking presence in New York and London, and open new offices in Asia and Latin America. Some institutions, including Royal Bank, will specialize in trade finance and treasury operations to support internationally minded corporate clients. Royal Bank's efforts in this regard are described under the Corporate and Investment Banking businessess on pages 33-36.

New roles, new rivals

Domestically, financial services providers will continue to capitalize on re-regulation to move into new lines of business. Canadian banks have entered the securities, trust and, to a more limited degree, insurance businesses.

Although the banks have federal permission to buy or build insurance affiliates, they are not yet allowed to sell insurance through their branch networks. The banks believe, however, that the benefits of in-branch sales to consumers will eventually be recognized by regulators. The banks also will continue to seek the right to enter the auto leasing business. Just as the banks are gearing up to enter these new lines of business, their core franchise is coming under assault from non-bank domestic and foreign competitors such as credit unions, insurance companies, asset-based lenders, mutual fund companies and brokerage firms. They may soon also include software companies, commercial on-line services and telecommunication companies.

Some of these emerging rivals have technological prowess, abundant resources and are eager to compete. So do banks, which also have a long history of close client relationships. Their challenge is to strengthen their brand identity and differentiate themselves from non-bank competitors by quality of service. This is a key objective of Royal Bank.

Industry consolidation

As Canadian banks strive to withstand such forays into their domestic market and increase their business internationally, they may consider the merits of mergers. Consolidation is a worldwide industry trend. In Japan, the merger of Bank of Tokyo and Mitsubishi Bank has created the world's largest bank with more than $700 billion US in assets.

Canadian banks recognize the importance of an internationally competitive scale. In that regard, they may seek to conduct mergers that offer significant opportunities for increasing revenues and enhancing efficiencies. At Royal Bank, we are working to grow our position both in Canada and internationally.

Regardless of the number of banks Canada has, they will all face a similar challenge – to meet changing client needs and to harness the new technologies that, together, will shape the financial services industry of the 21st century.

report on quality and innovation

For the rest of the decade, and probably beyond, the battle for the hearts and minds of our customers will be won by companies perceived to create the greatest value for the customer.

Two key dimensions of this value are quality and innovation. Royal Bank Financial Group strives for both in everything it does.

the role of service As competition among financial services providers stiffens, innovative products and quality of service play increasingly significant roles in the race for market share. Royal Bank Financial Group's host of innovative products and services (see 1996 At a Glance, page 2), though impressive, is only one side of the equation for success. As evidenced by the independent research cited below, Royal Bank Financial Group enjoys excellent service ratings in several key markets and product areas such as high-potential clients (with more complex investment and banking needs) and telephone banking. In areas where service levels are less striking, innovative initiatives are under way to deliver a superior level of service.

In 1996, Royal Trust's Global Securities Services achieved top rankings in three important international surveys. *Global Investor* ranked Royal Trust among the top five providers of global custody worldwide. *Global Custodian* ranked it the top provider of Canadian custody for the eighth consecutive year in its prestigious *Agent Bank Review* and one of two top worldwide providers of global custody service to pension funds.

In the 1996 edition of the annual *Market Facts* study on "Customer perceived value, loyalty, and the financial relationship," Royal Trust ranked highest among financial institutions in terms of overall service to high-potential clients.

After a little more than one year in existence, Royal Direct telephone banking enjoys high customer satisfaction levels, with 95% of customers satisfied with the service.

Addressing new customer needs

While many business groups and geographic areas within Royal Bank Financial Group have achieved high customer service levels, the impact of changing customer expectations on retail service cannot be overlooked. As the retail network shifts towards alternative delivery channels and a redefined role for branches (see Financial Services Industry Trends, page 14), there is a growing need to build stronger client relationships with a focus on high quality service. More than ever, individual clients tell us they seek proactive financial advice and effective problem resolution. Success in these areas drives the perception of value of products and services. Various innovative initiatives are under way to meet and exceed these customer needs.

By focusing on 250 high-potential branches, the Managing Priority Markets initiative has quickly brought a sales and financial advice focus to the network. The program has developed an effective sales force by: freeing up sales staff time to focus on customers through streamlining and centralization of administrative processes, introducing sales and sales management routines in support of growth and retention, and implementing reward and recognition for successful sales. In support of this initiative, each local market has identified its unique strengths to reach its goals.

Financial advice
Clients' need for proactive financial advice will increasingly be met by well-trained employees with sound investment knowledge. The new Royal Bank position of Account Manager, Investments (AMI) was created to target high-potential clients with complex investment needs. Two hundred AMIs have been trained so far to act as investment experts in branches.

Royal Bank also has mobile banking representatives, offering specialized advice in the areas of mortgages, investments and retirement planning.

Internal and external training programs support the organization's ongoing strategy to provide proactive financial advice.

Highlights of training

- More than 2,000 employees (33% of personal banking staff) are graduates of Royal Bank's Personal Financial Tune-Up program which trains employees to deliver financial advice relating to investing, retirement planning and income, education savings as well as financing and helping clients pay down their mortgage.

- At Royal Trust, 100 front-line employees have completed the Wealth Management Professional Development Program, gaining a Personal Financial Planning designation.

- Statistics from the Institute of Canadian Bankers show that Royal Bank Financial Group has almost twice as many registrations for courses as the next leading bank. Approximately 2,000 students are currently enrolled in Personal Financial Counselling and Personal Financial Planning programs.

- Personal Learning Network, an innovative state-of-the-art multimedia-based training and learning management tool, encourages just-in-time workplace learning and complements our full range of employee learning opportunities.

effective problem resolution

Problem resolution is a critical component of client loyalty and retention as customers who have had problems successfully resolved are even more loyal and are significantly more likely to repurchase our products. Employees' ability to react quickly and effectively is a key factor in problem resolution. Benchmarking exercises and a Royal Bank pilot confirmed a direct correlation between increased customer satisfaction and staff empowerment to resolve problems immediately. As a result of these findings, Royal Bank is committed to train and empower front-line retail staff to resolve problems on the spot.

A senior officer was appointed in 1996 to the newly created post of Ombudsman, whose responsibilities encompass improving relationships between Royal Bank Financial Group and its consumer and business clients, with emphasis on the small business sector. The Ombudsman acts as an objective party in resolving customer conflicts or problems. To request a copy of the Ombudsman's 1996 annual report, call 1-800-279-1638.

Ensuring quality from within
The ability of Royal Bank Financial Group companies to deliver quality products and customer service is dependent upon many internal processes which foster a culture of quality and innovation. Some highlights include:

- A rigorous quality process and continuous investment in technology in the payments processing area of Financial Institutions and Trade resulted in significant improvements over the past six years in the quality of service to our clients. This was achieved despite a substantial increase in volumes.

- A test project in 63 units to encourage high-potential client referrals among different members of Royal Bank Financial Group generated more than $1 billion in referrals in just 18 months. For every dollar referred from another group member, the program attracted $2.24 from the competition. The Royal Bank Financial Group Referral Program began its national rollout on November 1, 1996 with an automated referral tracking system which is the first of its kind among financial institutions in North America.

- A Staff Suggestion Program encourages innovation among employees. In 1996, the program generated $12 million in additional revenue and cost savings.

As a service business, Royal Bank Financial Group depends on the quality of its service for client loyalty and retention. Quality is a never-ending quest that we pursue with unrelenting fervour.

how we've grown:

general development of the business

Royal Bank has grown from a bank delivering products and services through branches to a broadly based financial services enterprise serving customers through a variety of channels, operating 24 hours a day, seven days a week.

Responding to changing customer needs and intense competition in our traditional businesses, our revenue growth strategy has focused on fee-based businesses. This strategy has been pursued largely through a series of acquisitions, beginning with the purchase in 1988 of Dominion Securities, Canada's largest full-service investment dealer. Key acquisitions since 1991 are summarized in the table below.

These acquisitions have contributed to the following trends since 1991:

- Other income has risen to 38% of total revenue in 1996 from 31%.
- Capital market fees have increased 191% to $752 million from $258 million.
- Fees from investment management and custodial services, and from mutual funds have grown to represent 19% of total other income from 5% in 1991.

Higher fees have accompanied a sharp increase in off-balance sheet assets. Assets under management were $51 billion at October 31, 1996, up significantly in the last five years.

In our traditional businesses, we have maintained our leadership position in residential mortgages, consumer loans, Canadian dollar business loans and personal deposits despite intense competition and a strict focus on profitable growth.

To improve our cost structure and increase revenues, we have streamlined our branch network and expanded the use of alternative delivery channels. Approximately 83% of routine transaction banking is currently performed outside the branch network, up substantially over the last five years. The number of branches and offices has declined by 152 in that time, despite the addition of 143 domestic Royal Trust branches in 1993.

ACQUISITION	KEY BENEFITS
McNeil Mantha Inc. (investment dealer) – 1991	Large Quebec sales force
Voyageur Travel Insurance Ltd. – 1993	Canada's largest travel insurance provider
Royal Trust – 1993	Canada's largest money manager Highly ranked in global custody Large mutual fund family Strong in global private banking Upscale banking business
Kidder Peabody's equity derivatives team (acquired by RBC Dominion Securities) – 1995	Broadens investment banking capability
Westbury Canadian Life Insurance Co. – 1996	$90 million in annual premiums Strong balance sheet Innovative products
TD Bank and Trust's institutional and pension custody business – 1996	$47 billion in assets A blue-chip client base Greater economies of scale Incremental revenues
Richardson Greenshields (investment dealer) (closed Nov. 1, 1996)	Over $300 million in revenues $16 billion in private client assets 575 investment advisors Strong international capabilities

Competition

Our entry into newer fee-based businesses has widened our range of competitors from other banks and trust companies to include investment dealers, mutual fund providers, money managers, custody service providers and insurance companies. Additional information on Royal Bank's competitive environment is provided on pages 14-15.

Competition is based on such factors as products, pricing, distribution and service quality, while success is measured by market share, client satisfaction and earnings.

corporate structure and business segments

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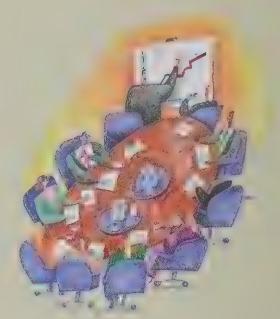
corporate structure and **business segments**

Two years ago, we created an organization structure with a focus on distinct business units operating under the strategic direction of a six-member Group Office. To better meet the total needs of our customers, which often cut across business lines, and to achieve higher levels of profitable growth, we grouped our businesses in October 1996 into three natural segments – Personal and Business Banking, Wealth Management, and Corporate and Investment Banking. Personal and Business Banking comprises four businesses – Personal Financial Services (including Residential Mortgages), Card Services, Insurance, and Business Banking. Wealth Management consists of Royal Trust, Mutual Funds, Private Client Services of our investment dealer RBC Dominion Securities, and Discount Brokerage services. Corporate and Investment Banking comprises Multinational Banking, Financial Institutions and Trade, and Institutional Services of RBC Dominion Securities which, commencing November 1, 1996, include the trading activities of the bank.



Each of these segments is supported by an operating committee, with a representative from each business, charged with taking a broad view of the entire customer market and developing integrated customer strategies, marketing, sales and operations. The Group Office, chaired by the chief executive officer and including the bank's five vice-chairmen, continues to meet weekly and have responsibility for Royal Bank Financial Group's overall strategic direction, competitive position, market performance, talent planning, external relations and risk profile. Each business remains responsible and accountable for competitive performance and operational excellence in the markets it serves.

Two new committees – Strategic Investments and Business Services – have been created. The former's focus will be to assess opportunities for growth in new business areas through alliances, joint ventures and acquisitions. The latter will manage distribution channels, systems, technology and operations as corporate utilities.

Group Office members and the heads of the businesses, the twelve geographic units and specialized functional units meet regularly in business unit council or group council sessions throughout the year to review the Group's performance versus plan, to communicate Group-wide issues, and to deal with cross-functional matters.

results by business segment

We present below the results for 1996 for our three major business segments – Personal and Business Banking, Wealth Management, and Corporate and Investment Banking.

In 1996, the bank added $400 million to its general provision for credit losses, following the refinement of its provisioning policy discussed on page 52. In addition, strong secondary market values for LDC debt allowed the bank to sell a portion of its LDC Brady bonds above net book value and to reverse $300 million of the country risk provision this year, while leaving the LDC provisioning ratio virtually unchanged. Specific provisions this year were $340 million.

These provisioning actions substantially raised the contribution to total Group earnings of the Other segment (which consists largely of the LDC portfolio), while lowering the contributions of the Personal and Business Banking, and the Corporate and Investment Banking segments. The additions to the general provision for the latter two segments were $100 million and $300 million respectively.

Personal and Business Banking had a return on equity of 24.6% and accounted for 61% of the Group's net income in 1996. More than three-quarters of the segment's revenues were derived from net interest income. The efficiency ratio of 64.5% was close to the average for Royal Bank Financial Group. It is the segment's objective to enhance this ratio through revenue growth and tight cost control.

Wealth Management accounted for 14% of the Group's net income. Over 70% of the segment's revenues were derived from fee income. The return on equity of 50.4% reflects relatively less capital attributed to this segment compared to the lending businesses, and the strong profitability of the businesses in this segment. The efficiency ratio of 74.3% was not unusual for the kinds of businesses in this segment.

Corporate and Investment Banking's return on equity of 7.5% and its 9% contribution to the Group's net income reflected the negative impact of a $300 million addition to the general provision mentioned earlier. The efficiency ratio of 55.7% was better than the Group average. Improving return on equity and enhancing efficiency are important objectives for this segment.

Other

This segment consists largely of the discontinued LDC business, real estate operations, and the corporate treasury group which manages Royal Bank Financial Group's market risk positions. The reversal of $300 million of the country risk provision this year significantly enhanced the segment's results, taking its net income to 16% of the Group's total. Last year, the Other segment recorded a net loss of $47 million.

RESULTS BY BUSINESS SEGMENT

FOR THE YEAR ENDED OCTOBER 31, 1996 ($ MILLIONS, TAXABLE EQUIVALENT BASIS)	PERSONAL & BUSINESS BANKING	WEALTH MANAGEMENT	CORPORATE & INVESTMENT BANKING	OTHER (1)	ROYAL BANK FINANCIAL GROUP
Net interest income	$ 3,841	$ 408	$ 746	$ (75)	$ 4,920
Other income	1,197	1,055	727	42	3,021
Gross revenues	5,038	1,463	1,473	(33)	7,941
Provision for credit losses	314	11	424	(309)	440
Non-interest expenses	3,247	1,088	820	(43)	5,112
Net income before income taxes	1,477	364	229	319	2,389
Income taxes	596	144	46	94	880
Non-controlling interest and taxable equivalent adjustment	12	20	48	(1)	79
Net income	$ 869	$ 200	$ 135	$ 226	$ 1,430
Net income as a % of total Group net income	61%	14%	9%	16%	100%
Return on equity	24.6%	50.4%	7.5%	–	17.6%
Efficiency ratio	64.5%	74.3%	55.7%	–	64.4%
Average assets	$91,000	$11,600	$72,700	$18,300	$193,600
Average loans and acceptances	87,300	7,100	36,000	–	130,400
Average deposits	87,500	20,600	39,300	–	147,400

(1) The Other segment is comprised mainly of LDC assets, real estate operations and corporate treasury.

personal and business banking

personal financial services

card services

insurance

business banking

personal and business banking's return on equity improved to 24.6% from 23.9% last year, despite the addition of $100 million to the general provision for credit losses in 1996.

The segment's contribution to Royal Bank Financial Group's net income declined from last year but nevertheless, at 61%, remained by far the highest of any segment.

Revenues for the segment showed little change over 1995, as higher revenues in Card Services and Business Banking were largely offset by declines in Insurance revenues and narrower interest margins in Personal Financial Services (explained on pages 46 and 42-44, respectively).

Specific provisions for credit losses were $214 million, down 53% from last year. The general provision for credit losses was $100 million compared to nil last year.

Other income this year was affected by changes in recording costs related to points-based credit card programs, which reduced card service revenues by $20 million this year.

Non-interest expenses increased by 4.6%, reflecting several revenue growth and efficiency enhancement initiatives in Personal Financial Services and Card Services, including rapid expansion of telephone banking. As well, the acquisition of Westbury Canadian Life Insurance Company, effective January 1, 1996, added to the number of employees and the costs of the business.

Reflecting these factors, the efficiency ratio increased to 64.5% from 62.0% in 1995. It is expected that the efficiency ratio will improve in 1997.

Descriptions of the major developments in 1996, the objectives for the future, and the strategy for attaining those objectives, are provided for each of the businesses in this segment on the following five pages.

PERSONAL & BUSINESS BANKING RESULTS

FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS, TAXABLE EQUIVALENT BASIS)	1996	1995
Net interest income	$ 3,841	$ 3,813
Other income	1,197	1,189
Gross revenues	5,038	5,002
Provision for credit losses	314	452
Non-interest expenses	3,247	3,103
Net income before income taxes	1,477	1,447
Income taxes	596	569
Non-controlling interest and taxable equivalent adjustment	12	9
Net income	$ 869	$ 869
Net income as a % of total Group net income	61%	69%
Return on equity	24.6%	23.9%
Efficiency ratio	64.5%	62.0%
Average assets	$91,000	$87,600
Average loans and acceptances	87,300	83,200
Average deposits	87,500	83,100

personal financial services (PFS) is Canada's largest provider of residential mortgages, consumer loans and personal deposits. Its 9 million customers are served through 1,267 domestic branches, 4,684 banking machines and account updaters, and a host of alternative delivery channels. It also manages the bank's profitable consumer business in the Caribbean.

1996 performance

PFS revenues in 1996 reflected a compression of the spread between the prime rate and core deposit funding costs. Nevertheless, the business's return on equity remained well above the bank's as a whole.

Average personal deposits and residential mortgages were up 5% and 8% respectively. The business's market share for personal deposits increased by 10 basis points, while that for residential mortgages was up 40 basis points. For Royal Bank Financial Group, the market share for residential mortgages was up 10 basis points, while that for personal deposits declined by 10 basis points as some Royal Trust clients shifted to mutual funds and other investment services in the low interest rate environment.

Customers using Royal Direct telephone banking during the year rose 184% to 870,000 and volumes reached $1.5 billion. The bank joined with five U.S. financial institutions and MECA software to develop the "Managing Your Money" PC home banking software, and later became a founding partner (and the only Canadian bank) in the Integrion Financial Network, through which home banking will be available over the Internet. In July, Royal Bank also became the first Canadian financial institution to provide pre-approved mortgages through a Web site, and began work on a system that would allow customers to make purchases over the Internet using a credit card. An innovative "Loan by Phone" program was launched nationally in 1996, allowing customers to apply for personal loans through Royal Direct, with loan decisions provided within seven minutes using Interactive Voice Response technology, a Canadian first.

A new in-store branch concept was launched, called Royal Bank Express. The bank also created 16 Royal Bank Financial Group branches, combining its consumer locations with those of RBC Dominion Securities and Royal Trust. To support sales effectiveness in these and other units, a new management information system and innovative staff training programs were introduced which will greatly enhance the bank's ability to identify customer needs and to target marketing activities to meet these needs.

In terms of new products, the "Yes, You Can" Mortgage offered first-time homeowners flexible payment options, a low down payment and an up-front cash bonus. A revamped student loan program led to growth of 31% in this business and a commanding market share of 54%. The Royal Credit Line for Students was launched, aimed at the large number of students who do not qualify for government assistance. For car buyers, the bank extended its auto buy-back program to include vehicles up to three years old, while a new automobile referral program resulted in 20% of all new auto loans being originated by car dealers.

PERSONAL FINANCIAL SERVICES

FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS)	1996	1995
Gross revenues	$ 2,781	$ 2,824
Average personal loans	16,100	15,100
Average personal deposits	70,200	66,700
Average residential mortgages	38,900	36,100
Market share *(1)*		
Personal loans	14.5%	14.2%
Personal deposits	14.3	14.2
Residential mortgages	11.8	11.4

(1) As a % of all financial institutions in Canada at August 31. Market shares exclude Royal Trust, Action Direct and RBC Dominion Securities – Private Client Services for personal deposits and exclude Royal Trust for residential mortgages. Market shares for the entire Royal Bank Financial Group at August 31, 1996 and August 31, 1995 were 15.7% and 15.5% respectively for personal loans, 17.1% and 17.2% respectively for personal deposits and 13.9% and 13.8 respectively for residential mortgages.

personal financial services (cont.)

1996 was a strong year for foreign exchange and retail service products. Royal Bank foreign exchange dominates the traveller destination points at Vancouver and Toronto (Pearson) airports, following successful negotiations completed this year for all locations.

In the Caribbean, technology enhancements are improving customer service. In June, a subsidiary, Finance Corporation of Bahamas Limited, launched the first telephone banking service in the Bahamas. As well, two new networks (Mastercard and Cirrus) were added to RoyalTouch banking machines in the Bahamas, completing the expansion of shared networks serving the tourist market. RoyalTouch customer access was also extended to a new location in the Antigua airport (the third such location in the Caribbean) and other key off-site locations in the region.

objectives going forward

PFS' key objectives include further enhancing its leading market shares, aiming for annual revenue growth of 5% and maintaining a strict control on costs.

strategy

PFS is striving to enhance its leadership positions through the use of new delivery channels, product innovation and by leveraging the capabilities of employees to deliver effective sales and service. Customizing products and services to respond to customer needs is a cornerstone of the strategy.

Telephone banking volumes are expected to double to $3 billion in 1997, and enhancements such as smart screen telephones and expanded product offerings are being pursued.

"Managing Your Money" PC home banking will be launched in December 1996 and will be available over the Internet by the spring of next year. Some 40 new features have been identified for the bank's ABM network and are currently being tested for customer acceptance. PFS also plans to double by 1998 its mobile sales force which included 200 investment and retirement planning representatives and over 200 mortgage sales representatives this year.

In developing new products, the business is targeting several market segments with high growth potential, including students, first-time homeowners and used-car buyers. In the future, the business expects 20% of annual revenue to be derived from products introduced over the previous 5 years.

To enhance sales and service capabilities, the Royal Bank Financial Group branch concept will be extended to 75 units by 1998, up from 16 in 1996.

A test project in 63 units to build referrals, involving new training, management and compensation systems, generated $1 billion in new business over an 18 month period, with 70% of this business derived from the competition. This referral program was launched nationally on November 1, 1996.

Royal Bank Financial Group has identified its 250 highest potential branches and is focusing significant resources on these units, including intensive sales training and new technology. An important component of the initiative is reducing administrative work by 30%. The program is expected to increase business volumes by 15% per year in these branches, and will be extended to other units in the future.

Several additional initiatives are under way to enhance our sales capabilities. The bank's first multimedia training program will be rolled out during 1997. We have introduced the role of Account Manager, Investments in several branches, with specialized training provided to these investment specialists. We continue to emphasize training with respect to providing financial advice to clients, with more than 2,000 employees having completed or currently enrolled in a variety of financial planning and counselling programs. New technology platforms are under development to allow for enhanced automated support of marketing and sales activities, including mobile banking capabilities.

In terms of cost control, the bank's network is being reconfigured to reflect the growing use of alternative delivery channels and the benefits of integrated Royal Bank Financial Group branches. The bank expects the use of alternative channels to increase to 95% of routine transactions by the year 2000, up from 83% at present. The number should approach 100% by 2005. This will be accomplished at the same time as choice and convenience are enhanced and sales effectiveness is extended.

card services provides a wide range of credit card and debit card products and services to meet the varying lifestyle needs of its 5.4 million credit cardholders and 6 million debit cardholders. As well, the merchant services group provides electronic processing of credit and debit cards at the point of sale. Revenues are derived from cardholder fees, interest payments on outstanding credit card balances, and merchant fees from *Visa* deposits and for use of the bank's credit and debit card terminals.

Products offered are *Visa* Classic, Classic II, Low Rate Option, *Visa* Gold, U.S. Dollar *Visa* Gold, Canadian Plus *Visa*, Purchasing/Corporate *Visa* cards and the new *Visa* CreditLine for small business. *Visa* represents approximately 75% of the bank card volume in Canada. Royal Bank Financial Group continues to have the largest *Visa* cardholder base in Canada, leads the market in processing *Visa* deposit volumes, and has the largest share of debit card terminals deployed at merchant locations.

1996 performance

Credit card volumes (the dollar amount charged to credit cards) rose 10% this year, while debit card volumes were 72% higher. Merchant debit card sales volumes were up by 95%.

This year, the business introduced Classic II, a successful, innovative product offering discounts at 6,000 retail partners and points for future rewards. For small businesses, a unique hassle-free, scorecard-driven *Visa* CreditLine was launched with similar success. The number of new *Visa* accounts (a leading indicator of future volume growth) increased significantly during the year.

The business is developing the technology for debit card acceptance at self-serve kiosks in the fast food, entertainment and oil and gas industries. The Group will be the first Canadian financial institution to allow customers to purchase products and services securely over the Internet using credit cards.

A pilot for Mondex electronic cash commenced in 1996, and national rollout is scheduled for late 1997.

objectives going forward

Card Services' primary objectives are to increase revenues by at least 5% a year and to control costs and credit losses.

Objectives for 1997 include more alliances with third parties and new technology introductions.

CARD SERVICES FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS)	1996	1995
Credit card volumes	$16,100	$14,600
Debit card volumes – cardholder	5,500	3,200
Debit card volumes – merchant	4,300	2,200

strategy

The bank plans a number of initiatives in 1997 to strengthen its market position in credit cards. New technology will be introduced over the next year to support market-driven programs consistent with the bank's segmentation strategies. In debit cards, the bank intends to increase its share of transactions and dollar volumes.

The strategy focuses on new product and service development for cardholders, through market segmentation, and for merchants through better reporting and analysis of consumer buying patterns. Technological enhancements which provide improved tracking and analysis of merchants' business volumes will generate leading-edge market research that identifies emerging trends.

Beyond alliances, costs will be contained through the centralization of systems and a new product costing system which is being developed to identify expense reduction opportunities.

insurance Royal Bank Financial Group provides creditor life and disability insurance to 1.4 million borrowing customers, the largest such portfolio for a Canadian bank. As well, travel insurance is provided directly, and through Voyageur Insurance Company. Acquired in 1993, Voyageur is Canada's largest travel insurance provider, which distributes its products through a network of 3,300 travel agents.

The bank's life insurance capability was enhanced with the acquisition of Westbury Canadian Life Insurance Company effective January 1996. Property and casualty insurance is offered to employees using outside underwriters. Royal Bank also operates an international reinsurance business through a subsidiary.

1996 performance

Premiums written increased 27% to $427 million, with $95 million attributable to the Westbury acquisition. Westbury has 150,000 policyholders, an extensive product capability, strong management, a low cost structure and a very conservative balance sheet. It represents one platform for future growth in the life insurance business.

In 1996, the Insurance Service Centre was introduced to manage customer and staff inquiries related to life and disability insurance on loan products. By August 1996, it was handling more than 8,000 calls per month.

Product enhancements included the introduction of life, disability and job loss insurance for the *Visa* Classic credit card, personal accident insurance, and a new annual plan for the bank's Travel HealthProtector program, as well as a revised Single Trip Plan whereby seniors can realize savings of up to 65% on their out-of-country medical insurance.

objectives going forward

The insurance group's primary objective is to achieve annual gross premiums of $1 billion by the year 2000, and strong annual revenue growth in each of the different lines of business.

INSURANCE

FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS)	1996	1995
Premiums written		
Creditor life and disability	$205	$200
Life insurance	95	–
Travel related	110	120
Property and casualty	15	15
International reinsurance	2	–
	$427	$335
Market share of premiums		
Creditor life and disability *(1)*	28.0%	30.0%
New life insurance *(2)*	2.0	N/A

(1) As a % of all banks in Canada at April 30. Based on Canadian Bankers Association report.
(2) As a % of new life insurance premiums in Canada at June 30.

strategy

The objectives for insurance will be met through a combination of acquisitions, joint ventures and internal initiatives, and a focus on marketing products to the Group's 9 million personal customers. In addition, as the insurance organization grows, it will be in a position to acquire new blocks of business and companies, and combine the acquired business with existing operations to achieve economies of scale. To complement the strong position in Canada's travel insurance market, expansion in major international markets is being contemplated.

Property and casualty insurance has been offered to the Group's more than 54,000 employees for four years. Experience from this test service could be used to distribute personal lines of home and automobile insurance, directly or through a joint venture, to the Group's customer base.

To expand sales of life and disability loan insurance, travel health insurance (products authorized for sale through the branch network), and personal accident insurance, coverage will be extended on most loan and credit card products, new products will be developed, sales training for branch staff enhanced, and direct marketing efforts increased.

business banking serves 370,000 small and medium-sized enterprises (SMEs), agricultural clients and large commercial businesses across Canada. It provides deposit, investment and financing, cash management, electronic commerce and advisory services, as well as venture capital capabilities.

1996 performance

Business Banking recorded higher earnings due to strong deposit growth coupled with almost no growth in expenses and a significant decline in credit loss provisions.

Average loans and bankers' acceptances to the important SME market were more than 3% higher while those for all of Business Banking were largely unchanged.

There were a number of important initiatives this year, with a particular focus on the SME market. For example, $300 million was committed to a program targeting small businesses in growth and export-oriented sectors.

The bank also teamed up with the Business Development Bank of Canada to help finance knowledge-based and other high-growth firms in select locations across Canada. A new loan product was launched allowing entrepreneurs to apply for equipment loans of up to $200,000 by completing a simple, two-page application. Also, a new card-based credit line was introduced which allows small businesses to borrow up to $35,000 using an easy, hassle-free one-page application. This highly popular, innovative product relies primarily on the personal credit history of the borrower.

objectives going forward

Key objectives are to grow revenues by building customer and employee satisfaction and market position, to further improve efficiency and to maintain credit quality.

strategy

Business Banking's strategic focus is on dominating the SME market, targeting high-growth market sectors such as advanced manufacturing, agribusiness, healthcare and home-based businesses, and deepening relationships with customers. The business will continue to provide innovative products and services to attain growth in these markets, including loans and alliances with public and private sector institutions, which add business without significantly increasing risk.

To enhance sales and service, the successful approach to serving knowledge-based industries (including the creation of specialized sales forces and industry advisory committees) is being extended to other sectors like healthcare and agribusiness. Risk management is likewise specializing in key market sectors, which will contribute to maintaining credit quality.

A number of pilots across the country are removing administrative work from the sales force, freeing up their time to generate revenue. This has positive implications for costs as well. This program will be rolled out across Canada in 1997.

To enhance efficiency, Business Banking reduced its number of centres in 1996, and is experimenting with mobile salesforces as well as with relocating its account managers closer to their clients either in the bank's branches or in the clients' locations.

BUSINESS BANKING

FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS)	1996	1995
Gross revenues *(1)*	$ 1,612	$ 1,574
Average assets	$ 30,000	$ 30,300
Average loans and acceptances	29,200	29,400
Number of customers	370,000	350,000

(1) Taxable equivalent basis.

wealth management

royal trust

mutual funds

RBC DS – private client services

discount brokerage

wealth management's net income increased by 53% from 1995, allowing the segment's earnings to rise to 14% of Royal Bank Financial Group's net income, from 10% last year. Strong gains were recorded in each of the four businesses in this segment, with earnings from mutual funds and from the private client services group of RBC Dominion Securities more than double last year's level. Royal Trust and Action Direct also recorded good growth in net income.

The return on equity for wealth management was 50.4% compared to 32.1% last year.

Revenues were up 25%, with other income 38% higher. This largely reflected strong increases in assets under management and under administration, totalling 27% and 29% respectively.

The 25% increase in revenues versus an 18% increase in non-interest expenses allowed the efficiency ratio to decline to 74.3% from 78.5% last year. Much of the expense growth was at RBC Dominion Securities, reflecting their strong performance and commission-based compensation.

Wealth management expects continued growth in earnings in 1997, although likely not at the same pace as this year.

The segment is well positioned for future growth with its unique franchise of strong, well-established advisory and discretionary investment management services, mutual funds, trust services and discount brokerage.

Further details of the four businesses in this segment appear on the next four pages.

WEALTH MANAGEMENT RESULTS

FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS)	1996	1995
Net interest income	$ 408	$ 406
Other income	1,055	767
Gross revenues	1,463	1,173
Provision for credit losses	11	22
Non-interest expenses	1,088	921
Net income before income taxes	364	230
Income taxes	144	89
Non-controlling interest	20	10
Net income	$ 200	$ 131
Net income as a % of total group net income	14%	10%
Return on equity	50.4%	32.1%
Efficiency ratio	74.3%	78.5%
Assets under administration *(1)*		
Institutional	$425,500	$324,600
Personal	78,300	68,600
Mutual fund	16,900	11,900
	$520,700	$405,100
Assets under management *(1)*		
Institutional	$ 20,500	$ 15,700
Personal	13,800	12,800
Mutual fund	16,900	11,900
	$ 51,200	$ 40,400
Average assets	$ 11,600	$ 12,300
Average personal loans	7,100	8,200
Average personal deposits	20,600	20,300

(1) Amounts for 1995 are as at September 30.

royal trust provides investment management, trust and custody services to personal and institutional clients in Canada and through 27 Global Private Banking offices in 21 countries. Royal Trust also provides personal deposits, loans and mortgages.

1996 performance

Royal Trust experienced its third consecutive year of strong growth across all business units. Assets under administration grew 29% to $475 billion, partly due to the acquisition of TD Bank and Trust's institutional custody business. Assets under management grew 27% to $51 billion, including global assets of $8 billion. Private client assets under management are now $14 billion, including the two WRAP services, Personal Asset Management and Security Plus, now over $1 billion.

Total revenues were up 5%. Fee revenues were 11% higher, with increases of 11% on the personal client side and 12% in the institutional business.

Global Private Banking, which has the most extensive international private banking network of any Canadian bank, had fee income growth of 5%, and now accounts for 20% of Royal Bank Financial Group's international income.

Institutional assets under management increased 31% due to strong investment performance and new business development. In Global Securities Services, assets under administration increased 31%, consolidating its position as Canada's largest institutional custodian.

Personal deposits declined as clients shifted to higher-return investments. Residential mortgages also fell, reflecting prepayments and referral of new business to Royal Bank.

objectives going forward

Royal Trust's objective is to increase fee revenues by at least 10% per year, while containing expense growth to an average of 3% per year.

strategy

Royal Trust's strengths of advisory expertise, investment performance and client service excellence will build revenues. It expects strong demand for investment management and administration services in Canada and abroad. Baby boomers are accumulating asset pools individually and in pensions, creating a demand for personal and institutional investment and custody services. Royal Trust's range of mutual funds and Canadian and global investment services positions it well to meet this demand.

A key strategy to increase revenue is to build referrals through sharing locations with other Royal Bank Financial Group members. This also reduces infrastructure costs and improves network productivity. Royal Trust's 16 shared locations will grow to 48 by the end of 1997. In addition, Royal Trust salespeople are now located in 37 Royal Bank branches, to build referrals.

Another important initiative is the Royal Bank Financial Group Referral Program which was piloted in 1996 and is planned for rollout during 1997. This program encourages referrals through incentive compensation and specialized training programs. Upgrading the financial advisory skills of staff is a priority and Royal Trust's goal is to ensure that each front-line sales and service employee has a professional designation within 3 years.

In order to build revenues without increasing infrastructure, Global Private Banking plans to continue the program it began in 1996 of making strategic agreements with third parties which can distribute its services in key markets around the world.

Through these strategies Royal Trust will reinforce its market leadership position in Canada and expand its international presence.

ROYAL TRUST

FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS)	1996	1995
Gross revenues	$ 764	$ 729
Fee revenues	$ 475	$ 427
Assets under administration *(1)*		
Institutional	$425,500	$324,600
Personal	32,700	30,900
Mutual fund	16,900	11,900
	$475,100	$367,400
Assets under management *(1)*		
Institutional	$ 20,500	$ 15,700
Personal	13,800	12,800
Mutual fund	16,900	11,900
	$ 51,200	$ 40,400
Average personal loans	$ 1,400	$ 1,600
Average personal deposits	14,800	15,300
Average residential mortgages	5,550	6,400

(1) Amounts for 1995 are as at September 30.

royal mutual funds is the largest provider of no-load mutual funds in Canada and the third largest fund company overall with $16.9 billion of assets under management and a market share of 8.7%. Thirty-four funds are offered to Canadians, mainly through Royal Bank and Royal Trust branches by approximately 9,300 licensed sales representatives, and by RBC Dominion Securities and Action Direct.

1996 performance

In the past 12 months, the industry benefited from declining interest rates and strong performances of the Canadian and U.S. equity markets. Industry assets rose 41% to $195 billion. Royal Mutual Funds also experienced strong growth, increasing year-end assets and number of fund accounts by 43%.

Gross revenues increased by 29% in 1996.

Royal Mutual Funds emphasizes to clients the importance of maintaining a diversified portfolio to reduce risk and maximize potential returns. This has led to sales of a well-balanced mix of funds, and a greater proportion of equity funds relative to other bank-owned fund families.

Balanced funds were the fastest growing asset class in 1996, with an 83% increase in balances. The Royal Balanced Fund, now one of the largest balanced funds in Canada, provides an ideal way for investors to achieve diversification in their portfolios. Money market and equity funds also gained over 50% in assets.

Money market funds represent a bridge from more traditional savings vehicles. Growth in equity fund balances resulted from both strong sales and good market performance.

objectives going forward

The objectives are to achieve average annual earnings growth of at least 15% over the next few years, increase market share to become the largest mutual fund company in Canada within five years, and achieve investment performance above the industry average.

Increased focus on retirement savings, combined with aging population demographics, supports continued growth, although growth will fluctuate year to year due to cyclical market trends. Mutual funds are not a mature product for banks, and we have significant potential for increased penetration of Royal Bank Financial Group's existing client base.

strategy

The mutual fund customer increasingly wants multiple convenient access points for sales and service – a key competitive advantage for Royal Bank Financial Group with its established branch network and rapid development of alternative delivery channels.

MUTUAL FUNDS

FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS)	1996	1995
Gross revenues *(1)*	$ 151	$ 117
Mutual fund balances		
Equity	$ 5,000	$ 3,200
Money market	4,800	3,100
Fixed income	3,800	3,700
Balanced	3,300	1,800
	$16,900	$11,800
Market share *(2)*		
Assets	8.7%	8.6%
Number of Fund accounts	2,122,000	1,479,000

(1) These amounts are after deducting fees paid to the investment manager, and to the brokers and Royal Trust branches for distributing the funds.
(2) As a % of total mutual fund assets in Canada.

Comprehensive training of branch staff will continue, with particular emphasis on enhancing sales skills and supporting investment specialists. The "Invest by Phone" service, launched in December 1996, is an extension of the branch network with added convenience. Further development of Internet and PC Banking delivery will address the needs of clients looking for convenience and self-service.

Customer service capabilities will be further improved and expanded. A plain language, user-friendly prospectus has already been introduced. More informative client statements will be rolled out beginning in January 1997. The 1-800 customer service line is extending hours of operation and enhancing service offerings, including a more comprehensive Interactive Voice Response capability.

Future product development initiatives are likely to be solutions-oriented, catering to specific client needs and objectives, rather than to a particular sector or asset class. An increased awareness of the Royal Mutual Funds brand is being developed through an advertising campaign launched in November 1996.

rbc dominion securities – private client services

specializes in offering non-discretionary and discretionary investment service and advice to high net worth Canadian investors. Through internal growth and the merger with Richardson Greenshields on November 1, 1996, RBC Dominion Securities (RBC DS) has 1,600 investment advisors, working out of 200 offices in all ten provinces and the two territories. Assets under administration were $42 billion at October 31, 1996 and represented the savings of some 500,000 Canadians.

RBC DOMINION SECURITIES – PRIVATE CLIENT SERVICES

FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS)	1996	1995
Gross revenues	$ 503	$ 300
Assets under administration *(1)*	$ 42,000	$ 35,600
Number of accounts	470,000	400,000

(1) Include Royal Mutual Funds. Amount for 1995 is as at September 30.

1996 performance

There were a number of positive initiatives this year, the highlight being the success of the Affluent Client Test. This test showed how well Royal Bank Financial Group members can work together to provide client-targeted services and solutions and, at the same time, increase the Group's market share. The year also witnessed continued deployment of investment advisors in branches, with RBC DS personnel now located and co-located in over 97 branches across the country.

objectives going forward

The principal objectives of the RBC DS Private Client Division will be to consolidate the recent merger with Richardson Greenshields, to continue to work with other members of the Group to develop client-oriented programs that will allow us to provide benchmark services to the Canadian investing public, and to develop both non-discretionary and discretionary fee-based businesses.

strategy

The Richardson Greenshields merger has placed RBC DS at the forefront of the Canadian wealth management market. We now have the most comprehensive branch network, with the largest number of well-trained and supported investment advisors managing the largest amount of private client assets in Canada. The magnitude of the operation will allow RBC DS to make, on an ongoing basis, the necessary investments in capital and people that are required to remain at the leading edge of product and service innovation, technology and growth in assets under management.

Strategic initiatives to increase fee-based revenues include improved client service through the Preferred Managers Program which provides clients with discretionary and non-discretionary money management expertise in Canada and the United States, and through new product innovations such as the Sovereign Account. As well, the newly introduced intergroup referral program will build on synergies that exist within the Group.

With strong cash flows for reinvestment in the business, the broadest array of fee-based services, and significant leverage arising from the largest franchise in the Canadian financial services industry, the Private Client Division of RBC DS is in a strong position to take advantage of growing opportunities in the wealth management market place.

discount brokerage

Royal Bank Action Direct Inc. is a wholly owned subsidiary of Royal Bank that provides discount brokerage services under the trade name Action Direct. It is a fully licensed securities dealer and a member of the Investment Dealers Association of Canada and the Canadian Investor Protection Fund. Investment service is provided by a toll-free 1-800 service from anywhere in Canada and the United States via telephone and on-line personal computer. Worldwide access is available by normal telephone line. Action Direct offers clients a wide variety of investments, including stocks, bonds, GICs and over 550 mutual funds, more than 350 of which are available through an automatic investment plan.

1996 performance

A favourable investment climate existed during most of 1996 and assets under administration grew over 70%. With more than 160,000 client accounts and $3.6 billion in assets under administration, our share of the Canadian discount brokerage marketplace has reached 16%.

This year saw the opening of a new Investor Centre in Royal Bank Plaza, Toronto and the initiation of premises expansion in Calgary, Richmond Hill and Montreal. Over 100 staff were added across the country to handle new business. Although clients may always speak to an Investment Representative, the automated telephone system handled an industry-leading 72% of customer enquiries for stock quotes and market information in 1996 as well as for orders outside normal market hours. This is a testament to the user friendliness of Action Direct's leading-edge technology. The system handles over 30,000 calls a day at this time.

In August, the first stand-alone, Windows-based on-line trading product in Canada, PCAction was launched. Client surveys indicate that 30% of our clients are expected to use the technology within the first three years and further growth is expected to follow. Action Direct's Internet site is accessible through Royal Bank's home page and is planned to have trading capability in late 1997.

ACTION DIRECT

FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS)	1996	1995
Assets under administration *(1)*	$ 3,600	$ 2,100
Number of accounts	163,000	128,000

(1) Includes Royal Mutual Funds. Amount for 1995 is as at September 30.

objectives going forward

It is anticipated that average growth rates of 20% per annum can be achieved in a normal environment. We expect to achieve a market share of 25% by the year 2000.

strategy

To meet its growth and market share targets, Action Direct will provide clients with access to a broad range of investment products and services through a variety of convenient channels.

corporate and investment banking

multinational banking

financial institutions and trade

rbc ds – institutional services

corporate and investment banking accounted for 9% of Royal Bank Financial Group's net income in 1996, down from 24% in 1995 as earnings declined largely due to a $300 million addition to the general provision for credit losses.

Revenues increased by 10%, with net interest income up 5% and other income 16% higher due to greater fee income in the RBC Dominion Securities – institutional services business.

The increase in non-interest expenses likewise reflected higher variable compensation costs at RBC Dominion Securities (RBC DS).

Specific provisions for credit losses were $124 million compared to $85 million in 1995. The general provision for credit losses was $300 million versus nil last year.

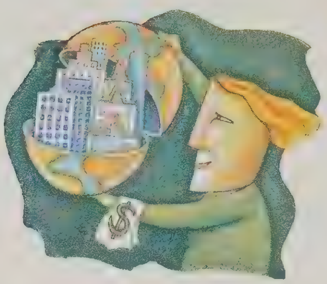
The efficiency ratio deteriorated slightly to 55.7% this year, reflecting the much higher contribution of RBC DS – institutional services business to the segment's results. This business has a far higher efficiency ratio than the Multinational Banking and Financial Institutions and Trade businesses due to its relatively high variable incentive compensation.

Stronger results in the Multinational Banking and Financial Institutions and Trade businesses are expected to have a positive influence on the segment's results in 1997, while results for RBC DS' institutional services may not match this year's exceptional level.

Descriptions of the three businesses in this segment are provided on the following three pages.

CORPORATE & INVESTMENT BANKING RESULTS

FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS, TAXABLE EQUIVALENT BASIS)	1996	1995
Net interest income	$ 746	$ 709
Other income	727	625
Gross revenues	1,473	1,334
Provision for credit losses	424	85
Non-interest expenses	820	729
Net income before income taxes	229	520
Income taxes	46	169
Non-controlling interest and taxable equivalent adjustment	48	42
Net income	$ 135	$ 309
Net income as a % of total group net income	9%	24%
Return on equity	7.5%	14.6%
Efficiency ratio	55.7%	54.6%
Average assets	$72,700	$55,600
Average loans and acceptances	36,000	30,100
Average deposits	39,300	33,300



multinational banking. a global business, develops and manages profitable relationships with large corporate and government clients for the benefit of all parts of Royal Bank Financial Group. It markets a broad range of credit, trading and capital markets products from 15 offices located in Canada, the U.S., Europe and Asia, and has particular expertise in loan syndications, asset securitization, structured and project finance, as well as in global cash management services.

1996 performance

In an environment marked by intense competition, excess liquidity and declining loan margins, Multinational Banking has concentrated on sustainable and profitable asset growth, portfolio quality and capital management, and the reduction of non-interest expenses. As a consequence of these efforts, the risk profile of the portfolio improved as average assets grew by 11% and significant reductions in the business cost base were available to offset further erosion in loan spreads. Improved portfolio quality has allowed Multinational to employ a much smaller amount of capital than in previous periods.

Multinational Banking continued to strengthen its international competitiveness, for example, moving from 15th to 8th position in *Bank Loan Report*'s syndications tables for North America. In Canada, the business maintained its significant market share and regained lead relationship status with accounts where this position had been lost. Surveys of Multinational's operations elsewhere in the world also evidence year-over-year improvement in the business's relationship position.

objectives going forward

Multinational Banking's objectives are to record sustained increases in net income and return on equity through selective asset growth, a higher proportion of more profitable and new products, and better efficiency.

Asset growth targets will not be realized at the expense of portfolio quality. The business recognizes the importance of effective risk management, particularly at this point in the credit cycle.

The business intends to remain a low cost provider of credit and thus maintain one of its key competitive advantages. Investments will be made in areas that promise sustained, profitable growth but efficiency enhancement efforts will continue.

MULTINATIONAL BANKING

FOR THE YEAR ENDED OCTOBER 31 ($ MILLION)	1996	1995
Gross revenues *(1)*	$ 398	$ 432
Average assets	$19,000	$17,100
Average loans and acceptances	18,100	16,100

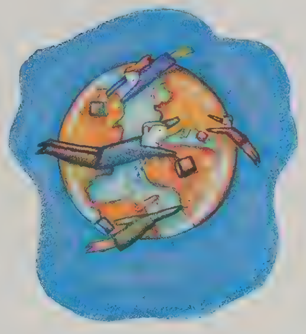
(1) Taxable equivalent basis.

strategy

Strong profitability will be ensured by focusing on core relationship clients and through specialized management of industry sectors in which the business has a proven track record and account management expertise. This will be reinforced by the close alignment of RBC Dominion Securities' and Multinational Banking's client strategies.

Leveraging the expertise of RBC Dominion Securities and Multinational's specialized analytical and structuring capabilities, the business will continue to expand globally in core industries, selectively targeting non-investment grade corporations. A new fast-track program for product development and an upgraded project finance group are expected to support this expansion, with the former anticipated to generate 15-20 new products over the next two years.

Multinational Banking plans to enhance its distribution capacity in both the primary syndication and secondary loan markets. When combined with new asset sourcing and hedging techniques, this additional capacity will accommodate larger volumes of business with core clients and support global expansion, while permitting prudent portfolio management.



financial institutions and trade (FI&T) consists of three distinct businesses. Correspondent Banking provides credit, deposit, collection, clearing and payment services to 3,500 of the world's largest financial institutions. The Non-Bank Financial Institutions group provides a mix of credit, operating and treasury products to insurance companies, finance companies and investment dealers on a global basis and to fund managers in Canada. Global Trade delivers credit and trade finance services such as letters of credit, guarantees and receivables financing. The bank maintains trade lines in over 130 countries.

1996 performance

The group's revenues increased marginally this year, as the benefit of asset growth was largely offset by declining spreads due to a higher quality portfolio.

Average assets grew by 38% during the year with the increase largely in trade loans to banks, predominantly in Latin America and Asia. Also, average letter of credit balances grew by 9%. Higher business volumes achieved in 1996 are expected to contribute to revenue growth next year.

The bank's market share of export letters of credit was up sharply this year, reflecting the marketing efforts of our international branches, and was the highest among Canadian financial institutions.

During 1996, an independent survey revealed that 47% of the world's largest banks use Royal Bank as their exclusive agent for settling their Canadian dollar interbank payments.

Also, the bank became the first Canadian chartered bank to extend lending against foreign account receivables to six key European and Asian-Pacific countries. Previously, this had only been available in Canada and the United States.

objectives going forward

FI&T's primary objective is to achieve average revenue growth of at least 10% over the next three years and at an annual rate of 10% thereafter. Enhancing efficiency is a further objective for the group.

strategy

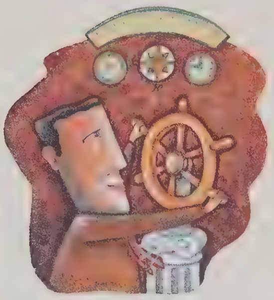
Distinct strategies are being pursued in each of FI&T's businesses. In Global Trade, greater penetration of the U.S. mid-market is expected to contribute to revenue growth. The bank's receivables financing capability, unique among Canadian financial institutions, is expected to support this objective as it should appeal to many smaller U.S. companies that currently do not have access to this form of financing. Other initiatives include developing expertise in the financing of commodities and increasing business in Asia and Latin America. Besides being the dominant trade bank in Canada, Royal Bank aims to be among the top 20 trade banks globally within five years. The bank is currently constructing a new technology platform to provide electronic customer access. This will enable clients to access Royal Bank's trade finance products through importers' and exporters' desktops and the Internet.

To increase volumes in the scale-sensitive business of Correspondent Banking, the bank plans to develop seamless North American payment services on its own and, potentially, through alliances. It is also streamlining processing and employing new technology with an aim to improving its efficiency by 25% over the next five years.

In the Non-Bank Financial Institutions market, the focus is on expanding the bank's business with top-tier investment dealers and insurance companies, enhancing both products offered and geographic markets served. The bank is the leader in providing services to the insurance industry in Canada and intends to become a top 10 global insurance bank within three years. It is also enhancing its cross-border payment capabilities for all customer groups through a new electronic receipt and disbursement service.

FINANCIAL INSTITUTIONS & TRADE

FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS)	1996	1995
Gross revenues	$ 309	$ 303
Average assets	$6,600	$4,800
Average letters of credit	$8,900	$8,200
Total payment volumes (thousands)	3,230	2,910
Payment errors (per 10,000 payments)	2.4	3.5



rbc dominion securities – institutional services

In addition to Private Client Services covered on page 31, RBC Dominion Securities (RBC DS) has an institutional arm which encompasses RBC DS Global Markets, Investment Banking, and Equity Trading and Sales. During the year, all divisions benefited from high volumes, buoyant markets, sharply lower interest rates and high levels of new issue activity.

RBC DS Global Markets, formed on November 1, 1996, integrated the fixed income business of RBC DS with the foreign exchange, money markets and capital markets businesses of Royal Bank.

Investment Banking provides financing and advisory services to Canadian and foreign corporations and various levels of government. Primary services include underwriting equity and debt, and providing advisory services for new issues and mergers and acquisitions.

The Equity Trading and Sales group provides a broad range of services to institutional investors, including comprehensive Canadian research products, the trading and sale of listed equities and equity-related products, and the distribution of new issues. The past two years have seen a significant move into markets outside Canada, particularly the United States and South Africa.

1996 performance

The fixed income and Royal Bank trading businesses in total produced very strong financial results in 1996.

Investment Banking had a record year due to Canadian market leadership in both equity underwriting and advisory services. RBC DS was lead manager for 40 issues totalling almost $5 billion, co-manager in 86 issues totalling over $12.5 billion, and generated advisory fees on more than 100 assignments.

Equity Trading and Sales recorded a substantial increase in both revenues and profits, despite an intensely competitive operating environment and start-up costs associated with the global mining and global equity derivatives initiatives.

Highlights of the past year included regulatory approval for the Global Derivatives Group to begin full operations, and the hiring of one of the world's leading mining teams, which can provide Canadian and international mining clients with global expertise.

RBC DOMINION SECURITIES – INSTITUTIONAL SERVICES		
FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS)	1996	1995
Gross revenues	$ 766	$ 600
Average assets	$47,100	$33,700

objectives going forward

A key objective of Global Markets is to become one of the world's leading foreign exchange banks and the pre-eminent player in Canadian pay instruments.

Investment Banking's objectives are to be the market leader in Canadian equity and debt financing, the most active provider of merger, acquisition and other advisory services, and to exploit high-potential niche opportunities in international markets.

Equity Trading and Sales will focus on further enhancing domestic market position while continuing to build global capabilities. This supports the division's longer-term objective of being the dominant firm in Canada and a valued international niche player.

strategy

The RBC DS Global Market structure will provide a single window to world markets, resulting in the seamless delivery of advice, research, trading and deal structuring to clients in North America and around the world. It will also enhance the group's ability to capitalize on cross-market linkages in global financial markets and provide innovative and customized solutions for clients.

To capitalize on the strength of Royal Bank Financial Group, Investment Banking is increasingly focused on new product development for core clients. The division is also expanding internationally to better serve Canadian clients in the United States and outside North America, and foreign clients in Canada.

This part of the Annual Report reviews Royal Bank Financial Group's financial performance and condition for the fiscal years ended October 31, 1996, 1995 and 1994 and provides a general indication of the bank's expectations of future performance. Also included is a discussion of the bank's procedures for managing various forms of risk relating to its balance sheet and off-balance sheet activities.

To assist readers, a glossary of financial terms is provided on pages 110-111. Note 1 to the financial statements on pages 82-84 presents a summary of the significant accounting policies followed in the preparation of the bank's financial statements. Material differences between Canadian and U.S. GAAP are described in Note 20 to the financial statements on pages 102-103.

TABLE 1 FACTORS BEHIND GROWTH IN EARNINGS PER SHARE AND NET INCOME

FOR THE YEAR ENDED OCTOBER 31	EARNINGS PER SHARE			NET INCOME		
	$			$ MILLIONS		
	1996	1995	1994	1996	1995	1994
Current year's results	**$4.09**	$3.49	$3.19	**$1,430**	$1,262	$1,169
Growth over prior year	**$.60**	$.30	$2.73	**$168**	$93	$869
Components of growth *(1)*:						
Net interest income	**.42**	(.02)	.53	**132**	(6)	166
Other income	**.81**	(.13)	1.16	**254**	(40)	365
Provision for credit losses	**.28**	.47	1.87	**87**	148	587
Non-interest expenses	**(.90)**	.01	(.49)	**(282)**	2	(155)
Other *(2)*	**(.01)**	(.03)	(.34)	**(23)**	(11)	(94)

(1) On an after-tax basis.
(2) Change in effective tax rate, non-controlling interest and, for earnings per share only, preferred share dividends.

FINANCIAL PERFORMANCE: AN OVERVIEW

In 1996, net income was up 13% from 1995 to $1,430 million, while earnings per share rose 17% to $4.09. Return on common shareholders' equity was 17.6%, up from 16.6% in 1995. This performance reflects continued efforts to meet the bank's three key strategic priorities:

Revenue growth

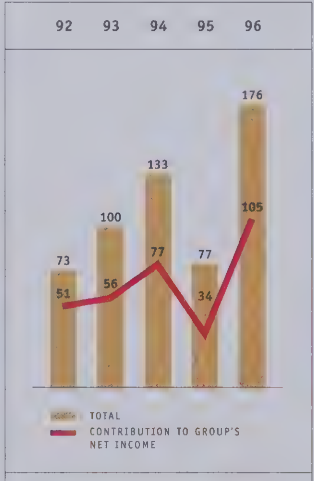
As shown in Table 1, other income provided the largest contribution to earnings growth this year, reflecting strong performances from capital market activities and a number of wealth management businesses. These businesses, which include full-service and discount brokerage, mutual funds, investment management and securities custody, are an important part of the bank's top strategic priority – to grow and diversify revenues. In addition to their strong growth potential, these fee-based businesses require relatively little capital and therefore generate high returns on equity.

Earnings per share increased 17% from 1995

Fuelled by strong capital market conditions, the bank's investment dealer, RBC Dominion Securities, recorded net income of $176 million, up $99 million or 129% from 1995. However, the contribution to Royal Bank Financial Group's net income, at $105 million ($34 million last year), was lower largely reflecting the impact of minority interest and goodwill amortization. Approximately $16 million of the $99 million increase related to the inclusion of an extra month of results for this subsidiary as the firm's year end (previously September 30) was brought in line with that of the bank.

Fees from mutual funds, investment management and custodial services rose sharply this year. Royal Mutual Funds was Canada's second fastest growing mutual fund family (first among bank-owned funds), while increases of 27% in assets under management and 28% in assets under administration further consolidated the bank's position as Canada's largest money manager and custodian.

The contribution of net interest income to earnings growth largely reflected higher asset volumes, an increase in securities gains and greater proceeds from the sale of LDC bonds. Initiatives undertaken to enhance the bank's leadership position in residential mortgages resulted in good growth in this portfolio in 1996.



RBC DOMINION SECURITIES NET INCOME ($ MILLIONS)

A detailed discussion of revenues is provided on pages 42-47.

Cost control

Growth in non-interest expenses was driven by higher variable compensation costs at RBC Dominion Securities (whose expenses are closely tied to revenues) and also by initiatives aimed at enhancing

TABLE 2 FINANCIAL PERFORMANCE AND GOALS

	MEDIUM-TERM GOALS	PERFORMANCE 1996	1995	1994	1993	1992
Profitability *(1)*						
Return on common shareholders' equity	16.0–18.0%	17.6%	16.6%	16.8%	2.4%	(.3)%
Efficiency *(2)*	58.0%	64.4%	63.6%	63.1%	61.1%	62.1 %
Provision for credit losses *(3)*	.35–.45%	.34%	.48%	.67%	1.61%	1.93 %
Dividend payout ratio *(4)*	30–40%	32.5%	33.8%	36.4%	–	–
Capital adequacy *(5)*						
Common equity to risk-adjusted assets	6.0%	6.0%	5.8%	5.3%	4.9%	5.2 %

(1) For the year ended October 31.
(2) Non-interest expenses as a percentage of gross revenues (taxable equivalent net interest income and other income). Excludes restructuring costs recorded in 1993 and 1992.
(3) Provision for credit losses, as a percentage of related average loans and bankers' acceptances.
(4) The ratios for 1993 and 1992 are not meaningful.
(5) As at October 31.

efficiency and growing revenues. A full discussion of non-interest expenses is provided on pages 47-48.

Portfolio quality
The favourable trend in credit quality over the last three years continued in 1996 with a lower provision for credit losses, further reductions in both gross and net impaired loans, and an addition of $400 million to the general provision which took it to $700 million at October 31, 1996. A full discussion of risk management, problem loans and credit losses appears on pages 51-61.

In 1996, further steps were taken towards effective capital management. In August 1996, $237 million of preferred share capital was redeemed, following the redemption of $272 million of preferred shares in the third quarter of 1995. These redemptions enhanced earnings per share by 7 cents this year. In September 1996, the bank announced a program to repurchase up to 10% of the public float of its common shares by September 1997. Approximately 3.6 million shares were repurchased this year, with no positive impact on earnings per share as most shares were bought back at the end of October.

EFFECTIVE CAPITAL MANAGEMENT
(% CHANGE FROM 1995 TO 1996)

PERFORMANCE VERSUS GOALS
Table 2 above compares the bank's performance to its medium-term (3-5 year) financial goals, designed to enhance shareholder value. In establishing its goals, the bank takes into consideration expected economic and market conditions, rates of return earned in the financial services industry, the bank's previous performance and expected changes in its business mix.

The medium-term goals were streamlined in 1996. Several profitability goals based on average assets, including return on average assets, were discontinued. A growing proportion of off-balance sheet fee-based businesses, largely in wealth management, have made measures based on assets less relevant to the bank. The common equity to assets ratio was also discontinued as it did not reflect the varying degrees of risk inherent in different types of assets.

The profitability goals retained by the bank, and shown in Table 2, are unchanged from a year ago.

General provision was up $400 million to $700 million

ROE was up 100 basis points to 17.6%

Return on average common shareholders' equity (ROE)
The ROE goal reflects the bank's desire to provide a greater risk premium over the long-term risk-free rate of return (as represented by the yield on 10-year Government of Canada bonds) than is available on similar equity investments. Given the possible range of this premium under different market conditions, the bank's desire for returns in the first quartile of the 40 largest North American banks, and its own performance in recent years, the ROE goal was maintained at a range of 16-18% in 1996.

The ROE of 17.6% achieved in 1996 was up 100 basis points from a year ago. The increase was achieved despite a $700 million or 10% increase in the bank's average common shareholders' equity which reflected strong internal capital generation this year. The redemption of $509 million of preferred shares referred to earlier enhanced ROE by 30 basis points.

Efficiency
Better efficiency represents a significant opportunity to grow future earnings. To achieve this, the bank is maintaining a 3-5 year efficiency ratio goal of 58%, which it

acquisitions in 1996

During 1996, the bank completed or announced three significant acquisitions in support of its first strategic priority – to grow and diversify revenues, predominantly in fee-based businesses.

Westbury Canadian Life Insurance Company

Effective January 1996, the bank acquired 100% of Westbury Canadian Life Insurance Company of Hamilton, Ontario, a major provider of life insurance through independent agents. Westbury brought to Royal Bank approximately $90 million of annual gross revenues, 170,000 individual life and annuity policies and an underwriting capability. It has offices in Hamilton, Montreal and Calgary and derives over 70% of its sales from Ontario and Quebec.

TD Bank and Trust's Institutional and Pension Custody Business

In August, Royal Trust acquired the institutional and pension custody business of TD Bank and Trust, building important scale in a business characterized by thin margins and intense global competition. The acquisition is expected to increase Royal Trust's client assets under administration by $47 billion or 12%, and raise its industry leading share of Canada's corporate and institutional custody market to 38% from 33%.

Richardson Greenshields

On August 29, 1996, Royal Bank announced an agreement to acquire all outstanding shares of Richardson Greenshields, a full-service investment dealer, for $480 million. Following the completion of the acquisition on November 1, 1996, the operations of Richardson Greenshields and the bank's own full-service investment dealer, RBC Dominion Securities, were merged to build on the scale, products and expertise of the two companies.

The acquisition adds significantly to RBC Dominion Securities' high-growth retail business, increasing the number of investment advisors to almost 1,600, from just over 1,000, and adding $16 billion in private client assets to RBC DS's base of $42 billion. It also provides enhanced capabilities in the areas of securitization, infrastructure financing, derivatives, structured products and commodities, as well as valuable international expertise. Further details of the transaction are provided in Note 19 to the financial statements on page 101.

The acquisition is expected to have a positive impact on the earnings of RBC Dominion Securities in fiscal 1998.

RBC DS global markets

On November 1, 1996, the trading division of the bank was combined with RBC Dominion Securities' Global Fixed Income Group. The new group, called RBC DS Global Markets, is one of the four divisions of the RBC Dominion Securities Group and is discussed on page 36. The unit operates in a vast new 350-position dealing room in Toronto that, along with London and Singapore, make up the three trading hubs that anchor a trading network extending to 20 international locations. The formation of RBC Dominion Securities Group is discussed in Note 19 to the financial statements on page 101.

intends to pursue aggressively through both revenue growth and expense control.

The bank's business mix, with a high proportion of retail, wealth management and investment banking operations, poses a significant challenge to attaining this goal. These businesses have high expense-to-revenue ratios but also high ROEs.

In 1996, the efficiency ratio deteriorated by 80 basis points from the prior year to 64.4%. This increase largely reflected a greater contribution to earnings from RBC Dominion Securities, whose efficiency ratio is higher than that of the bank, as well as investments in efficiency improvement initiatives, acquisitions and other significant transactions, and expansion in high-potential areas such as telephone banking and discount brokerage. These factors are discussed in more detail on pages 47-48.

Credit quality

The bank's credit quality goal is to maintain, over a full economic cycle, a provision for credit losses of between .35% and .45% of average loans and bankers' acceptances.

In 1996, the provision for credit losses amounted to .34% of average loans and bankers' acceptances, down from .48% in 1995.

Dividend payout ratio

In managing its dividend policy, the bank balances the need to retain sufficient earnings to finance future growth while adequately rewarding shareholders for their investment in Royal Bank.

In 1996, the bank's payout ratio of 32.5% was in the lower half of its target range of 30-40% and compared to 33.8% in 1995. Strong earnings growth this year and the effect of lower preferred share dividends outpaced growth in common share dividends. The bank increased its quarterly dividends per common share by 3 cents to 34 cents effective April 1996, following a 2 cent increase effective October 1995.

It is the bank's policy to review its dividend payout quarterly.

Common equity to risk-adjusted assets

The goal of 6.0% for common equity to risk-adjusted assets reflects the bank's desire to have sufficient capital to fund future growth and to maintain its current strong debt ratings.

At October 31, 1996, the bank's common equity to risk-adjusted assets ratio was 6.0%, up from 5.8% a year ago. As capital is generated internally and shares repurchased over the next year, the bank expects its capital ratio at the end of 1997 to be close to the current level.

DISCUSSION OF EARNINGS

Domestic operations

Note 2 to the financial statements on page 85 provides income statements for the bank's domestic and international operations for 1996, 1995 and 1994.

As shown in Table 3 below, domestic net income in 1996 was down 13% from a year ago. A $400 million addition to the general provision for credit losses and higher non-interest expenses offset the benefits of much lower specific provisions, very strong capital market fees and higher securities gains and loan volumes.

Domestic earnings reflect additions to the general provision, strong fee income, and higher loan volumes

TABLE 3 HIGHLIGHTS OF DOMESTIC EARNINGS (1)

FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS)	1996	1995
Net income	$ 698	$ 803
Change from prior year	$ (105)	$ 85
Components of change *(2)*:		
Net interest income	98	(2)
Other income	223	(67)
Provision for credit losses	(135)	165
Non-interest expenses	(235)	19
Other *(3)*	(56)	(30)
Key financial measures		
Net interest margin *(4)*	2.80%	2.87%
Provision for credit losses as a % of average loans and bankers' acceptances	.68%	.47%
Efficiency *(5)*	67.4%	66.8%
Return on assets	.47%	.58%
Average assets	$148,600	$138,700

(1) Domestic operations include all business transacted in Canada, excluding the Canadian-based activities of the bank's international money market units.
(2) On an after-tax basis.
(3) Change in effective tax rate and non-controlling interest.
(4) Net interest income as a percentage of average assets.
(5) Non-interest expenses as a percentage of gross revenues.

Canada's economic performance

- Real GDP growth in Canada is estimated at 1.4% for 1996, down from 2.3% in 1995, largely reflecting weakness in consumer and public sector spending. In 1997, real GDP growth is expected to pick up to 3.0%, driven by stronger private sector employment and continued export growth.

- Three-month T-Bill rates fell to 3.2% at October 31, 1996, down 283 basis points from a year ago, and 184 basis points below the comparable U.S. rates. Further interest rate reductions will depend largely on the resiliency of the Canadian dollar to "negative spreads" with the U.S. The bank expects short-term Canadian rates to remain low in 1997.

- The Canadian dollar rose to 74.8 cents U.S. by the end of fiscal 1996, from a low of 72.1 cents U.S. on February 19, 1996. The dollar should continue to appreciate over the next year, to a range of 75-77 cents U.S., as investor sentiment towards Canada remains favourable.

- Inflation of 1.4% this year declined 60 basis points from the 1995 level and was near the mid-point of the Canadian government's 1-3% target range. Inflation should remain close to current levels in 1997.

Average assets were up $9.9 billion or 7%, with a $4.6 billion increase in liquid assets (cash resources and securities) which contributed to a decline in the net interest margin this year. Net interest income is discussed more fully on pages 42-44.

Looking ahead to 1997, the bank expects continued strength in fee income, greater loan volumes and an improvement in the efficiency ratio to contribute to higher domestic earnings.

International operations

International net income rose by 59% in 1996. The reversal of $300 million of the country risk provision and a $28 million increase in proceeds from the sale of LDC past due interest bonds largely accounted for this year's strong earnings.

Average assets rose $10.6 billion or 31%, with liquid assets up $7.0 billion, leading to a decline in the net interest margin.

Looking to 1997, earnings will likely reflect stronger revenues from trading and other fee-based activities, although proceeds from the sale of LDC past due interest bonds will not recur as virtually all of these bonds have now been sold.

TABLE 4 HIGHLIGHTS OF INTERNATIONAL EARNINGS (1)

FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS)	1996	1995
Net income	$ 732	$ 459
Growth over prior year	$ 273	$ 8
Components of growth *(2)*:		
Net interest income	20	(5)
Other income	(8)	47
Provision for credit losses	298	(50)
Non-interest expenses	(8)	(25)
Other *(3)*	(29)	41
Key financial measures		
Net interest margin *(4)*	1.68 %	2.13%
Provision for credit losses as a % of average loans and bankers' acceptances	(1.36)%	.54%
Efficiency *(5)*	49.5 %	49.4%
Return on assets	1.63 %	1.33%
Average assets	$45,000	$34,400

(1) International operations include all business transacted outside Canada, as well as Canadian-based international money market units.
(2) On an after-tax basis.
(3) Change in effective tax rate and non-controlling interest.
(4) Net interest income as a percentage of average assets.
(5) Non-interest expenses as a percentage of gross revenues.

REVENUES

Overview

To grow and diversify revenues, the bank is expanding rapidly in high-potential businesses and solidifying its leading positions in traditional banking services.

Consistent with these efforts, other income rose 16% in 1996 and accounted for two-thirds of all revenue growth, while net interest income increased despite intense competition for quality business. An overview of revenue growth is provided in Table 5 below.

Net interest income

Details of the 5% increase in net interest income in 1996 are provided in Table 7 on page 44.

Higher volumes of business (largely securities, residential mortgages, business loans and reverse repurchase agreements) had a $476 million favourable impact on net interest income.

However, rate factors served to decrease net interest income by $263 million, largely due to a narrowing of the spread between the prime rate and core deposit funding costs. The average prime rate was 6.7% in 1996, down 190 basis points from the 1995 level. This negative factor more than offset higher securities gains (realized gains on the disposal of securities,

TABLE 5 HIGHLIGHTS OF REVENUES

FOR THE YEAR ENDED OCTOBER 31	1996		1995	
	($ MILLIONS)	%	($ MILLIONS)	%
Net interest income *(1)*	$4,920		$4,707	
Other income	3,021		2,610	
Gross revenues	7,941		7,317	
Change over prior year:				
Net interest income *(1)*	213	5%	(10)	–
Other income	411	16	(64)	(2)
Gross revenues	$ 624	9%	$ (74)	(1)%

(1) Taxable equivalent basis.

TABLE 6 NET INTEREST INCOME ON AVERAGE ASSETS AND LIABILITIES

FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS, TAXABLE EQUIVALENT BASIS)	1996			1995			1994		
	AVERAGE BALANCES (2)	INTEREST (3)	AVERAGE RATE	AVERAGE BALANCES (2)	INTEREST (3)	AVERAGE RATE	AVERAGE BALANCES (2)	INTEREST (3)	AVERAGE RATE
ASSETS									
Earning assets									
Deposits with other banks									
Non-interest bearing	$ 78	$ –	–%	$ 258	$ –	–%	$ 795	$ –	–%
Interest bearing									
Domestic	1,465	68	4.64	1,238	83	6.70	616	40	6.49
International	15,880	854	5.38	12,578	734	5.84	10,188	439	4.31
	17,423	922	5.29	14,074	817	5.81	11,599	479	4.13
Securities									
Investment account	22,119	1,557	7.04	18,652	1,364	7.31	15,462	896	5.79
Trading account	14,775	887	6.00	10,831	737	6.80	9,351	667	7.13
Loan substitute	682	71	10.41	839	93	11.08	1,180	115	9.75
Net gains on securities	–	190	–	–	128	–	–	189	–
	37,576	2,705	7.20	30,322	2,322	7.66	25,993	1,867	7.18
Loans *(1)*									
Domestic									
Residential mortgages	45,810	3,710	8.10	43,736	3,744	8.56	43,358	3,654	8.43
Consumer instalment and other personal loans	16,582	1,468	8.85	15,902	1,574	9.90	15,809	1,394	8.82
Credit card loans	3,447	457	13.26	3,371	444	13.17	2,906	340	11.70
Business and government loans	30,928	2,233	7.22	31,120	2,755	8.85	32,521	2,157	6.63
Assets purchased under reverse repurchase agreements	5,503	366	6.65	3,719	237	6.37	4,891	206	4.21
	102,270	8,234	8.05	97,848	8,754	8.95	99,485	7,751	7.79
International									
Residential mortgages	514	46	8.95	544	48	8.82	573	49	8.55
Consumer instalment and other personal loans	361	25	6.93	578	68	11.76	157	14	8.92
Business and government loans	20,128	1,551	7.71	16,147	1,187	7.35	15,457	1,085	7.02
	21,003	1,622	7.72	17,269	1,303	7.55	16,187	1,148	7.09
Total loans	123,273	9,856	8.00	115,117	10,057	8.74	115,672	8,899	7.69
Total earning assets	178,272	13,483	7.56	159,513	13,196	8.27	153,264	11,245	7.34
Customers' liabilities under acceptances	7,105	–	–	6,342	–	–	6,069	–	–
Other assets	8,223	–	–	7,245	–	–	7,367	–	–
Total assets	$193,600	$13,483	6.96%	$173,100	$13,196	7.62%	$166,700	$11,245	6.75%

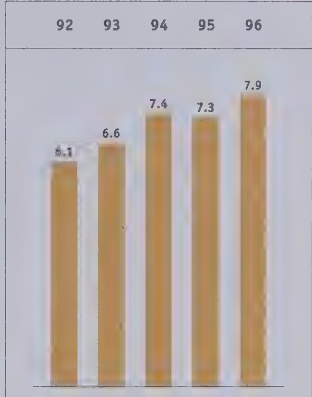
(1) Includes impaired loans, net of specific provisions.
(2) Calculated on a daily basis.
(3) Interest income includes loan fees (1996 – $169 million; 1995 – $161 million, 1994 – $178 million).

and unrealized gains related to the daily marking to market of trading account securities) which rose $62 million from last year to $190 million. In addition, proceeds from the sale of LDC past due interest bonds (shown under investment account securities) were up $28 million from last year to $78 million. A reduction in average net impaired loans also had a positive impact on this year's net interest income.

The acquired operations of Westbury Canadian Life Insurance Company added $10 million to net interest income this year.

Table 8 on page 44 shows the factors behind the change in the net interest margin (net interest income as a percentage of average assets). While higher liquid asset volumes contributed to net interest income, they led to a 16 basis point decline in the net interest margin this year as these assets are lower yielding than loans. In addition, the previously-mentioned narrowing of the spread between the prime rate and core deposit funding costs, led to a 12 basis point reduction in the net interest margin. The renewal of term deposits in the lower interest rate environment of 1996 was the major factor behind a 5 basis point improvement in the spread on mortgages.

In 1997, the bank expects net interest income growth to be similar to the 1996 level.



GROSS REVENUES
TAXABLE EQUIVALENT BASIS
($ BILLIONS)

TABLE 6 NET INTEREST INCOME ON AVERAGE ASSETS AND LIABILITIES (CONTINUED)

FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS, TAXABLE EQUIVALENT BASIS)	1996			1995			1994		
	AVERAGE BALANCES (1)	INTEREST	AVERAGE RATE	AVERAGE BALANCES (1)	INTEREST	AVERAGE RATE	AVERAGE BALANCES (1)	INTEREST	AVERAGE RATE
LIABILITIES AND SHAREHOLDERS' EQUITY									
Deposits									
Domestic									
Non-interest bearing	$ 6,845	$ –	–%	$ 6,323	$ –	–%	$ 6,514	$ –	–%
Interest bearing									
Consumers	82,904	4,197	5.06	79,728	4,414	5.54	75,149	3,372	4.49
Businesses and governments	22,702	1,047	4.61	19,488	1,264	6.49	19,268	796	4.13
Banks	431	30	6.96	474	35	7.38	811	45	5.55
	112,882	5,274	4.67	106,013	5,713	5.39	101,742	4,213	4.14
International									
Non-interest bearing	506	–	–	889	–	–	758	–	–
Interest bearing									
Consumers	5,366	239	4.45	4,942	244	4.94	5,803	188	3.24
Businesses and governments	13,368	795	5.95	12,825	683	5.33	12,607	510	4.05
Banks	15,269	807	5.29	12,017	722	6.01	12,640	566	4.48
	34,509	1,841	5.33	30,673	1,649	5.38	31,808	1,264	3.97
	147,391	7,115	4.83	136,686	7,362	5.39	133,550	5,477	4.10
Subordinated debentures	3,604	308	8.55	3,663	320	8.74	3,507	268	7.64
Other interest-bearing liabilities	19,067	1,140	5.98	11,130	807	7.25	9,525	783	8.22
	170,062	8,563	5.04	151,479	8,489	5.60	146,582	6,528	4.45
Acceptances	7,105	–	–	6,342	–	–	6,069	–	–
Other liabilities	7,229	–	–	6,486	–	–	5,857	–	–
	184,396	8,563	4.64	164,307	8,489	5.17	158,508	6,528	4.12
Shareholders' equity									
Preferred	1,884	–	–	2,166	–	–	2,240	–	–
Common	7,320	–	–	6,627	–	–	5,952	–	–
Total liabilities and shareholders' equity	**$193,600**	**$8,563**	4.42%	$173,100	$8,489	4.90%	$166,700	$6,528	3.92%
Total assets and net interest income	**$193,600**	**$4,920**	2.54%	$173,100	$4,707	2.72%	$166,700	$4,717	2.83%
Consisting of:									
Domestic	$148,600	$4,162	2.80%	$138,700	$3,976	2.87%	$134,100	$3,980	2.97%
International	45,000	758	1.68	34,400	731	2.13	32,600	737	2.26
Total	**$193,600**	**$4,920**	2.54%	$173,100	$4,707	2.72%	$166,700	$4,717	2.83%

(1) Calculated on a daily basis.

TABLE 7 | CHANGES IN NET INTEREST INCOME

FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS)	1996 vs 1995			1995 vs 1994		
	INCREASE (DECREASE) DUE TO CHANGES IN			INCREASE (DECREASE) DUE TO CHANGES IN		
	AVERAGE VOLUME (1)	AVERAGE RATE (1)	NET CHANGE	AVERAGE VOLUME (1)	AVERAGE RATE (1)	NET CHANGE
Assets						
Deposits with other banks	$ 182	$ (77)	$ 105	$117	$ 221	$ 338
Securities						
Investment account	315	(122)	193	226	242	468
Trading account	367	(217)	150	104	(28)	76
Loan substitute	(16)	(6)	(22)	(36)	14	(22)
Net gains on securities	–	62	62	–	(67)	(67)
Loans						
Domestic						
Residential mortgages	243	(277)	(34)	32	58	90
Consumer instalment and other personal loans	65	(171)	(106)	8	172	180
Credit card loans	10	3	13	45	59	104
Business and government loans	(17)	(505)	(522)	(96)	694	598
Assets purchased under reverse repurchase agreements	119	10	129	(57)	88	31
International						
Residential mortgages	(3)	1	(2)	(3)	2	(1)
Consumer instalment and other personal loans	(21)	(22)	(43)	48	6	54
Business and government loans	304	60	364	50	52	102
Total interest income	1,548	(1,261)	287	438	1,513	1,951
Liabilities						
Deposits						
Domestic						
Consumers	171	(388)	(217)	207	835	1,042
Businesses and governments	187	(404)	(217)	9	459	468
Banks	(3)	(2)	(5)	(20)	10	(10)
International						
Consumers	20	(25)	(5)	(30)	86	56
Businesses and governments	30	82	112	12	161	173
Banks	179	(94)	85	(27)	183	156
Subordinated debentures	(5)	(7)	(12)	18	34	52
Other interest-bearing liabilities	493	(160)	333	123	(99)	24
Total interest expense	1,072	(998)	74	292	1,669	1,961
Net interest income	$ 476	$ (263)	$ 213	$146	$ (156)	$ (10)
Consisting of:						
Domestic	$279	$ (93)	$186	$107	$ (111)	$ (4)
International	197	(170)	27	39	(45)	(6)
Total	$476	$(263)	$213	$146	$ (156)	$ (10)

(1) Volume/rate variance is allocated based on the percentage relationship of changes in balances and changes in rates to the total net change in net interest income on a taxable equivalent basis.

TABLE 8 | CHANGES IN NET INTEREST MARGIN (1)

FOR THE YEAR ENDED OCTOBER 31 (%)	1996	1995
Net interest margin *(2)*	2.54 %	2.72 %
Change from prior year	(.18)	(.11)
Components of change:		
Growth in liquid assets	(.16)	(.08)
Prime-core deposit costs	(.12)	.14
Securities gains	.03	(.04)
Mortgage – funding costs	.05	(.10)
Impaired loans	.02	(.04)
Other factors	–	.01

(1) Taxable equivalent basis.
(2) Net interest income as a percentage of average total assets.

TABLE 9 OTHER INCOME GROWTH				
FOR THE YEAR ENDED OCTOBER 31	1996		1995	
	($ MILLIONS)	%	($ MILLIONS)	%
Change from prior year	$411	16 %	$ (64)	(2)%
Components of change:				
Capital market fees	318	73	(133)	(23)
Mutual fund revenues	51	27	(12)	(6)
Investment management and custodial fees	45	16	8	3
Foreign exchange revenues, other than trading	25	18	6	4
Deposit and payment service charges	20	3	20	3
Card service revenues	4	1	20	8
Revenues from insurance-related activities	(34)	(33)	4	4
Trading revenues	(21)	(8)	46	22
Other factors	3	1	(23)	(9)

Other income

As shown in Table 9 above, capital market fees and fees from wealth management businesses, such as brokerage, investment management, custodial services, and mutual funds, were the major drivers of a 16% growth in other income in 1996.

A $25 million pre-tax gain on the sale of the bank's interest in RBC Centre in London had a positive effect on other income in 1996. However, changes in recording costs related to points-based credit card programs, served to reduce card service revenues by $20 million this year.

The $318 million or 73% increase in capital market fees was due to strong performances from all divisions of RBC Dominion Securities, which benefited from strong markets, greater volumes and high levels of new issue activity, as well as an extra month of results for the firm this year. The latter added $54 million to capital market fees.

Mutual Fund Ranking in Canada*

	Total assets October 31, 1996 ($ billions)	Change from October 31, 1995 ($ billions)
1. Investors Group	$23.5	$4.7
2. Trimark	18.6	6.1
3. Royal Mutual Funds	16.9	5.1
4. Mackenzie	15.0	4.1
5. AGF Management	9.6	2.3

* Source: The Investment Funds Institute of Canada

The increase in mutual fund fees mainly resulted from growth of $5.1 billion or 43% in assets, to $16.9 billion at October 31, 1996. Of the $5.1 billion increase, $3.4 billion represented net sales while $1.7 billion related to capital appreciation. Favourable market conditions with low interest rates, good fund performance, effective sales and service, and the bank's extensive distribution network all contributed to this year's results. Royal Mutual Funds had the second highest asset growth in Canada in 1996, and the highest among bank-owned funds.

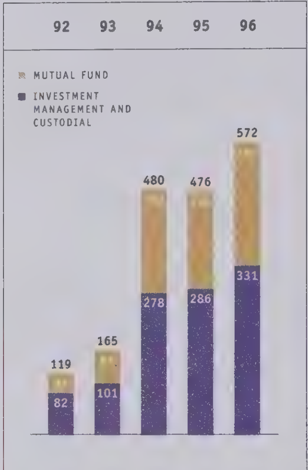
Higher investment management and custodial fees reflected increases of 27% in assets under management and 28% in assets under administration.

The increase in foreign exchange revenues (other than trading) mainly reflected greater demand for currency conversions through the bank's branch network, while over three-quarters of the increase in deposit and payment service charges related to higher banking machine transaction volumes.

TABLE 10 OTHER INCOME					
FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS)	1996	1995	1994	1993	1992
Capital market fees	$ 752	$ 434	$ 567	$ 456	$ 356
Deposit and payment service charges					
Deposit accounts	484	486	482	486	500
Payroll processing	50	46	42	38	36
Other payment services	167	149	137	125	118
	701	681	661	649	654
Investment management and custodial fees	331	286	278	101	82
Card service revenues	282	278	258	203	183
Mutual fund revenues	241	190	202	64	37
Trading revenues	230	251	205	228	239
Foreign exchange revenues, other than trading	165	140	134	107	115
Credit fees	153	156	156	152	152
Revenues from insurance-related activities	70	104	100	61	32
Gain (loss) on disposal of premises and equipment	9	(6)	(5)	(14)	(10)
Other	87	96	118	89	100
Total	$3,021	$2,610	$2,674	$2,096	$1,940
Growth over prior year	16%	(2)%	28%	8%	10%
Other income as a % of gross revenues	38%	36 %	36%	32%	32%

TABLE 11 ASSETS UNDER ADMINISTRATION AND MANAGEMENT				
AS AT OCTOBER 31 ($ MILLIONS)	1996	1995*	1994*	1993*
Assets under administration				
Institutional	$426,900	$327,200	$275,700	$220,100
Personal	78,300	68,600	58,200	43,900
Retail mutual funds	16,900	11,900	12,900	10,300
Total	$522,100	$407,700	$346,800	$274,300
Assets under management				
Institutional	$20,500	$15,700	$14,700	$11,800
Personal	13,800	12,800	11,500	11,000
Retail mutual funds	16,900	11,900	12,900	10,300
Total	$51,200	$40,400	$39,100	$33,100

** As at September 30.*



MUTUAL FUND AND INVESTMENT MANAGEMENT AND CUSTODIAL FEES ($ MILLIONS)

The reduction in insurance revenue related mainly to the adoption of the policy premium method of accounting in 1995 whereby the excess of the present value of future premiums over projected costs resulted in higher revenues that year.

Trading revenue is discussed in the next section.

Westbury Canadian Life Insurance Company, acquired as of January, and TD Bank and Trust's institutional and pension custody business, purchased in August, contributed approximately $4 million and $2 million, respectively, to other income in 1996.

It is unlikely that this year's exceptional growth in capital market activity will be matched in 1997. As a result, other income growth next year is expected to be at the mid-single digit level.

Trading-related revenues

Included in trading-related revenues are gains and losses on securities and derivatives which are actively traded, are expected to be held for short periods, and whose values are marked-to-market daily. A description of the components of trading-related revenue included in net interest income and other income is provided in footnotes 1 and 2 to Table 12 below.

As shown in Table 12, the net interest income portion of trading-related revenues rose $82 million or 28% in 1996. Of this amount, $50 million related to gains on the bank's portfolio of trading securities (close to two-thirds of which are Canadian government securities), with the remainder relating mainly to higher interest income on these securities. The $50 million amount is included in the $62 million increase in securities gains, in Table 7 on page 44.

Trading revenue included in other income declined largely due to lower gains associated with interest rate swaps and other rate risk management products. Trading volumes were lower in the first half of 1996, as declining interest rates encouraged customers to leave market risk positions unhedged. Although volumes picked up in the latter part of the year, a preference for longer-term maturities resulted in limited revenues from this business as revenues on interest rate contracts are recognized over their lifetime.

Contributing to a $12 million or 6% increase in foreign exchange trading revenue included in other income were higher domestic trading volumes and effective sales and marketing by the product engineering group.

TABLE 12 TOTAL TRADING-RELATED REVENUES			
FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS)	1996	1995	1994
In Net Interest Income *(1)*	$373	$291	$330
In Other Income *(2)*	230	251	205
Total	$603	$542	$535
By product:			
Interest rate risk management contracts *(3)*	$ 21	$ 51	$ 53
Foreign exchange *(4)*	217	203	151
Debt instruments *(5)*	303	248	284
Equity, commodity and precious metal contracts *(6)*	62	40	47
Total	$603	$542	$535

(1) Represents realized and unrealized gains and losses on trading securities, interest earned on those securities and other cash instruments held in the trading portfolios less funding costs associated with trading related derivative and security positions.
(2) Comprised primarily of realized and unrealized gains and losses associated with trading derivative instruments and foreign exchange.
(3) Interest rate risk management contracts include swaps, interest rate options, interest rate futures, forward rate agreements and related cash instruments used to hedge the trading derivatives portfolios.
(4) Includes foreign exchange spot, forward, futures and options contracts.
(5) Debt instruments include Canadian government securities and corporate debt instruments.
(6) Includes equity, commodity and precious metals contracts and their related derivatives.

TABLE 13 EFFICIENCY			
FOR THE YEAR ENDED OCTOBER 31 (%)	1996	1995	1994
Efficiency ratio – total *(1)*	64.4%	63.6%	63.1%
Efficiency ratio – excluding RBC Dominion Securities *(1)*	63.2%	62.1%	62.1%

(1) Non-interest expenses as a % of gross revenues.

Beginning in fiscal 1997, new requirements of the Superintendent of Financial Institutions Canada will result in realized and unrealized gains and losses on on-balance sheet trading securities being reported as trading revenue in other income. Realized gains and losses on investment account securities will also be included in other income, in a new "other than trading" category. Interest earned on these securities will continue to be recorded in net interest income.

EXPENSES

Provision for credit losses

The provision for credit losses fell by $140 million or 24% in 1996, following a $240 million or 29% reduction in 1995. The provision for credit losses is reviewed on page 61.

Non-interest expenses

As shown in Table 13 above, the efficiency ratio (non-interest expenses as a percentage of gross revenues) increased by 80 basis points in 1996, as a 9% growth in revenues was more than offset by a 10% increase in non-interest expenses which is explained below.

Of the $455 million increase in non-interest expenses this year, shown in Table 14, $238 million or just over half related to RBC Dominion Securities, largely in human resource costs. RBC Dominion Securities had one of the best years in its history, resulting in higher revenues and, as a result, greater variable compensation expenses. In addition, about $60 million of the firm's expense growth related to thirteen months of results this year versus twelve months last year, as its year end was brought in line with the bank's.

Excluding RBC Dominion Securities, non-interest expenses were up $217 million or 5% from 1995.

Contributing another $90 million to non-interest expenses in 1996 were the following three factors:

- Efficiency enhancement initiatives ($50 million)
- Acquisitions and the formation of RBC DS Global Markets ($20 million)
- Expansion in high-growth businesses ($20 million)

Non-interest expenses rose 5% this year, excluding RBC Dominion Securities

Efficiency enhancement intiatives: A co-sourcing agreement with Toronto Dominion Bank and Bank of Montreal to combine processing operations led to a one-time charge in the fourth quarter of $25 million. Restructuring of the bank's business banking and multinational groups and further automation of processing functions contributed another $25 million.

Acquisitions and RBC DS Global Markets: The acquisition of Westbury Canadian Life Insurance Company, the purchase of TD Bank and Trust's institutional and pension custody business, and the combining of RBC Dominion Securities' fixed income team with the bank's trading group, under the name RBC DS Global Markets, contributed $20 million in total to non-interest expenses.

Expansion in high-growth businesses: Stronger-than-expected growth in the bank's telephone banking and discount brokerage operations accounted for $20 million of the increase in non-interest expenses this year. At October 31, 1996, customers and employees at Royal Direct telephone banking were up by 184% and 50%, respectively, from 1995. Action Direct, the bank's discount brokerage operation, added 113 employees during the year as business volumes rose sharply. The number of customer accounts rose by close to 35,000 to approximately 160,000.

The $90 million of costs related to these three factors exceeded the $44 million of one-time costs in 1995 associated with the accelerated depreciation of personal computers and banking machines.

Excluding RBC Dominion Securities and the factors just discussed, non-interest expenses were up $171 million or 4% in 1996.

Table 14 shows the major categories of growth in non-interest expenses. The increase in human resource costs mainly reflected higher compensation at RBC Dominion Securities and the factors discussed above. The acquisitions this year, a greater number of

TABLE 14 NON-INTEREST EXPENSE GROWTH				
FOR THE YEAR ENDED OCTOBER 31	1996		1995	
	($ MILLIONS)	%	($ MILLIONS)	%
Change over prior year	$455	10 %	$ (4)	– %
Components of change:				
Human resource	$288	11 %	$(112)	(4)%
Communication	62	13	11	2
Occupancy	34	7	(27)	(5)
Equipment	(14)	(3)	46	10
Other	85	13	78	14

TABLE 15 NON-INTEREST EXPENSES					
FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS)	1996	1995	1994	1993	1992
Human resources					
Compensation	$2,513	$2,243	$2,368	$2,034	$1,901
Benefits	338	320	307	276	259
	2,851	2,563	2,675	2,310	2,160
Occupancy					
Premises rent	277	256	247	227	223
Rental income from properties	(2)	(5)	(7)	(4)	(4)
	275	251	240	223	219
Premises repairs and maintenance	87	78	94	86	80
Depreciation	75	72	87	65	60
Property taxes	37	38	43	37	39
Energy	33	34	36	33	31
	507	473	500	444	429
Equipment					
Depreciation	250	283	244	207	203
Computer rental and maintenance	218	200	197	167	152
Office equipment rental and maintenance	24	23	19	22	22
	492	506	460	396	377
Communications					
Telecommunications	161	140	140	120	122
Postage and courier	145	130	128	111	103
Marketing and public relations	123	103	96	72	70
Stationery and printing	94	88	86	74	77
	523	461	450	377	372
Other					
Professional fees	165	147	113	86	88
Business and capital taxes	123	116	117	120	136
Deposit insurance	118	116	100	62	53
Travel and relocation	80	83	71	57	57
Amortization of goodwill	38	38	48	35	19
Employee training	42	34	27	24	25
Donations	20	16	17	14	14
Other	153	104	83	80	57
	739	654	576	478	449
Non-interest expenses before restructuring costs	5,112	4,657	4,661	4,005	3,787
Restructuring costs	–	–	–	410	130
Total	$5,112	$4,657	$4,661	$4,415	$3,917
Growth over prior year (excluding restructuring costs)	10%	–	16%	6%	5%

positions in telephone banking and discount brokerage, and further growth in RBC Dominion Securities' private client salesforce contributed to the bank's workforce shrinking by only about 800 positions (on a full-time equivalent basis) this year compared to the 1,000 positions anticipated when the year began.

The increase in communication expenses was largely due to higher telecommunication costs relating to stronger than expected business volumes in telephone banking, full-service and discount brokerage. As well, marketing and public relations expenses rose 19%, reflecting greater advertising and product promotion. Marketing and promotional efforts also contributed to higher postage and courier costs, as well as greater stationery and printing expenses.

The increase in occupancy costs largely reflected the termination of lease commitments and other costs associated with network streamlining.

Expense growth rate to be in low single digits in 1997

Equipment costs were lower due to last year's accelerated depreciation of personal computers and banking machines.

Contributing to the growth in other expenses were higher professional fees, largely relating to efficiency enhancement initiatives, and an increase in capital taxes.

In 1997, the bank expects non-interest expense growth in the low single digits as expense growth in RBC Dominion Securities is not expected to match the 1996 level, and the benefits of efficiency enhancement initiatives become more apparent.

TABLE 16 INCOME AND OTHER TAXES					
FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS)	1996	1995	1994	1993	1992
Income taxes					
Provision for income taxes					
Statement of income	$ 880	$ 755	$ 655	$ (5)	$ (65)
Taxable equivalent adjustment	30	40	49	61	65
	910	795	704	56	–
Retained earnings					
Taxes related to the initial adoption of the Impaired Loans accounting standard *(1)*	(55)	–	–	–	–
Other *(2)*	12	22	(95)	(90)	(128)
	(43)	22	(95)	(90)	(128)
	867	817	609	(34)	(128)
Other taxes					
Payroll taxes	152	145	144	123	121
Goods and services tax, and sales taxes	135	133	130	112	113
Provincial capital taxes	85	77	77	76	88
Property taxes	48	49	55	46	50
Business taxes	38	39	40	44	48
	458	443	446	401	420
Total	$1,325	$1,260	$1,055	$367	$292
Effective tax rate *(3)*	37.3%	37.0%	35.2%	–	–

(1) Cumulative tax effect of initial adoption of the Impaired Loans accounting standard.
(2) The income taxes reported in retained earnings principally relate to the hedging of foreign currency exposure on foreign operations.
(3) Income taxes reported in the Statement of Income, as a percentage of net income before taxes. The tax rates for 1993 and 1992 are not meaningful.

Income and other taxes

As shown in Table 16 above, income and other taxes were $1,325 million in 1996, up $65 million from a year ago. Excluding a tax adjustment related to the adoption of a new impaired loan accounting standard (in line with a guideline issued by the Superintendent of Financial Institutions Canada and described on page 59) total income and other taxes rose by $120 million or 10%.

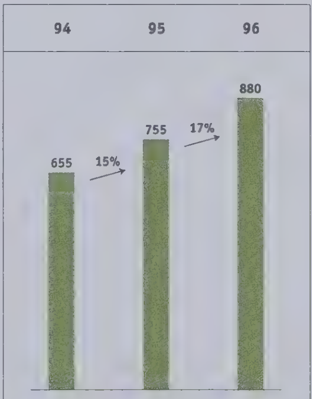
The provision for income taxes rose 14% in 1996 to $910 million, largely reflecting higher earnings and an increase in the effective tax rate. Of this provision, $880 million was reported in the Statement of Income, representing an increase of 17% from a year ago, while the remaining $30 million was a taxable equivalent adjustment relating to the bank's $782 million portfolio of loan substitute securities (credit available to small businesses and other borrowers at favourable interest rates, but the interest from which is not taxed.)

The bank's effective tax rate was 37.3%, up from 37.0% in 1995. As outlined in Note 12 to the financial statements on page 93, the bank's effective tax rate differs from the composite income tax rate of 42.9% due to lower tax rates for certain domestic and international subsidiaries and the above-mentioned tax-exempt nature of its loan substitute securities.

The income tax recovery reported in retained earnings was principally due to the previously-mentioned implementation of the new impaired loan standard.

Note 12 also shows that current income taxes in 1996 were $623 million, while deferred income taxes were $214 million. The deferred income tax portion related mainly to prior years' credit losses (largely in 1992 and 1993) by the parent bank which, although expensed through the income statement, could not be claimed for tax purposes as the parent bank had insufficient taxable income. These losses cannot be claimed against the earnings of profitable subsidiaries as Canada does not allow consolidated tax reporting. A portion of these losses was claimed against 1994, 1995 and 1996 taxable earnings and, as a result, the bank's deferred tax asset has declined from $1.6 billion in 1994 to $1.1 billion at October 31, 1996.

Contributing to the increase in other taxes, that is those not specifically tied to income, were higher payroll taxes, which include contributions to the Canada and Quebec pension plans,



PROVISION FOR INCOME TAXES – STATEMENT OF INCOME ($ MILLIONS & % GROWTH OVER PRIOR YEAR)

Despite higher expenses, net income increased 13%, fuelled by strong growth in other income and better asset quality

TABLE 17 ASSET GROWTH				
AS AT OCTOBER 31	1996		1995	
	($ MILLIONS)	%	($ MILLIONS)	%
Total assets	$217,950		$183,652	
Growth over prior year	$ 34,298	19%	$ 10,573	6%
Components of growth:				
Loans				
Residential mortgages	2,968	7	1,002	2
Consumer instalment and other personal loans	1,528	9	396	2
Credit card loans	87	3	114	3
Business and government loans	4,776	10	3,347	7
Assets purchased under reverse repurchase agreements	6,855	149	(668)	(13)
Total loans	16,214	14	4,191	4
Securities	10,785	33	5,010	18
Cash resources	5,857	33	1,261	8
Customers' liability under acceptances	1,123	18	95	2
Other	319	4	16	–

TABLE 18 DEPOSIT GROWTH				
AS AT OCTOBER 31	1996		1995	
	($ MILLIONS)	%	($ MILLIONS)	%
Total deposits	$161,817		$143,491	
Growth over prior year	$ 18,326	13%	$ 7,676	6%
Components of growth:				
Consumers	845	1	4,715	6
Businesses and governments	7,899	20	3,478	10
Banks	9,582	70	(517)	(4)

provincial health programs and unemployment insurance premiums. Capital taxes also increased this year. Canada is one of the few countries that impose capital taxes and, of those that do, Canada's rates for financial institutions are among the highest.

At October 31, 1996, total assets were up $34.3 billion or 19% from a year ago. As shown in Table 17 above, loans and bankers' acceptances were up 14% and 18%, respectively, while securities and cash resources were each 33% higher.

New residential mortgage loans were up 36% from 1995

DISCUSSION OF THE BALANCE SHEET

Overview

As shown in Table 6 on page 42, average assets were up $20.5 billion or 12% from 1995. The increase largely reflected greater volumes of securities, residential mortgages and reverse repurchase agreements.

Loans and bankers' acceptances

Contributing to the increase in loans was a $3.0 billion or 7% increase in residential mortgages which benefited from the best housing affordability in 10 years. The average one-year mortgage rate was 6.7% in 1996 versus 8.7% in 1995. New business booked during the year was up 36% from a year ago.

Consumer instalment and other personal loans rose by 9% following a 2% increase in 1995. A revamped Canada student loan program largely accounted for a $810 million or 30% increase in student loans, while a new dealer referral program and enhanced buy-back option contributed to a $250 million or 8% growth in car loans. Credit card outstandings were up 3% compared to a year ago.

Business and government loans rose 10% with three-quarters of the increase related to short-term loans to regulated financial institutions. Reverse repurchase agreements increased 149% as the bank made greater use of these short-term, fully-secured credit instruments.

The growth in bankers' acceptances reflected a wider spread between the rates on these instruments and the prime rate, which made them more attractive to borrowers this year.

In 1997, the favourable impact of a stronger Canadian economy (see page 41) is expected to result in greater loan growth in residential mortgages, consumer loans, credit cards and certain segments of business lending, including the small business market.

Cash resources and securities

Cash resources and securities each increased 33% in 1996 as the bank continued to maintain relatively high levels of liquidity, partially for interest rate hedging activities. Of the increase in securities, $6.3 billion involved the bank's investment account and was largely in the form of Canadian and US government debt. Trading account securities, which are shown on the bank's balance sheet at their estimated market value, rose $4.4 billion or 34%, reflecting additional purchases of securities and, to a lesser extent, price appreciation on existing instruments.

Market value surplus on investment securities was $620 million, up from $231 million last year

As shown in Note 3 to the financial statements on page 87, the market value of the bank's investment account securities exceeded their carrying value by $620 million at the end of 1996, compared to $231 million at the end of 1995. The increase mainly reflected strong gains in the Canadian bond market stemming from a declining interest rate environment.

Deposits

As shown in Table 18 on page 50, total deposits rose by $18.3 billion or 13% in 1996 following a 6% increase in 1995. However, unlike a year ago when fixed-term consumer deposits were up sharply, growth this year was largely driven by deposits from businesses, governments and banks.

Deposits by businesses and governments rose 20%, reflecting higher liquidity levels among business customers, particularly near the end of the fourth quarter, while bank deposits were 70% higher.

Total consumer deposits were up 1%. Growth this year was constrained by the impact of significantly lower interest rates which prompted many depositors to switch to mutual funds and other investments to obtain higher returns.

RISK MANAGEMENT

Overview

As the bank expands into new markets, capitalizes on emerging technologies, and introduces innovative delivery capabilities to meet customer needs, risk becomes more diverse and complex.

Risk management at Royal Bank Financial Group has changed significantly over the past several years to meet these challenges. The focus is now on identifying, assessing, managing and monitoring all forms of risk across the whole group. To accomplish this, policies have been improved, processes streamlined, new techniques developed and resources realigned.

Effective risk management is integral to the bank's objective of generating consistent growth in earnings. In support of this goal, risk management specialists work in full partnership with the bank's business, geographic and functional groups in the development of strategies and the execution of business plans. Their aim is to ensure that target returns are achieved within the desired risk/return parameters.

A significant undertaking in 1996 was the development of a new risk framework which identifies the major risks which the bank must manage in serving its customers. These risks include credit risk, market risk, operating risk, people risk, competitive risk, reputational risk, regulatory/legislative risk and systemic risk.

Detailed reviews of each of these risks were prepared for senior management and the Risk Policy Committee of the Board of Directors. Concurrent with these reviews, the bank began analysing each of its businesses against the risk framework to ensure identification of all risks within each business. This will lead to a better understanding of correlations between different risk classes and businesses. Approximately half of the bank's businesses were analyzed in 1996, with the remainder to be completed during the first half of 1997. In the future, all new products will be reviewed against this framework to assess their impact on the bank's risk profile.

The Risk Policy Committee of the Board is at the top of the bank's risk management structure. It reviews major risk management policies and strategies and oversees the work of management's Group Risk Committee, which is chaired by the chief executive officer and is responsible for determining the overall risk management policies and strategies of the bank. Other members of the Group Risk Committee include the bank's vice-chairmen and the executive vice-presidents of Risk Management and Corporate Treasury.

The Risk Policy Committee and the Group Risk Committee have increasingly adopted a holistic approach, focusing on the bank's risk framework and the policies and procedures that direct its transactions. Individual exposures, groups of names and new business activities are reviewed if they are deemed to have a significant bearing on the risk profile of the organization.

Reporting to the Group Risk Committee are the Risk Management Committee and the Asset and Liability Committee (ALCO). The Risk Management Committee creates policies and procedures relating to credit, operating, people and other risks and reviews exposures and strategies for major industry sectors and countries. ALCO oversees all aspects of liquidity and market risk, including global limits for market risk exposures and policies surrounding the bank's interest rate and foreign exchange rate risk management activities.

Market and liquidity policies and procedures proposed by the bank's Corporate Treasury group are reviewed by ALCO and the Group Risk Committee and approved by the Board of Directors. They are reviewed annually by the Audit Committee of the Board of Directors in the case of liquidity risk, and the Risk Policy Committee of the Board for market risk.

While effective structures, policies and procedures are crucial for successful risk management, so are highly-skilled employees. Royal Bank Financial Group seeks to hire and retain the best risk managers, and gears its training, compensation and performance review practices to encouraging and reinforcing a risk management culture throughout the organization.

TABLE 19 EARNING ASSETS BY LOCATION OF ULTIMATE RISK (1)							
AS AT SEPTEMBER 30 ($ MILLIONS)	1996	1995	1994	1993	1992	1996	1992
Canada	$135,629	$126,677	$123,867	$119,245	$ 98,987	71.7%	77.7%
United States	23,083	14,651	13,961	13,757	11,637	12.2	9.1
Europe							
United Kingdom	6,738	6,287	5,896	5,826	4,978	3.6	3.9
Germany	3,026	2,207	1,768	1,154	1,130	1.6	.9
France	2,769	1,477	1,506	1,498	1,249	1.5	1.0
Switzerland	928	560	1,191	686	425	.5	.3
Other	3,761	2,205	2,469	2,526	2,309	2.0	1.8
	17,222	12,736	12,830	11,690	10,091	9.2	7.9
Latin America and Caribbean							
Brazil	1,550	1,231	1,231	1,234	1,202	.8	.9
Bahamas	1,070	1,033	962	1,025	889	.6	.7
Argentina	821	599	442	385	385	.4	.3
Mexico	1,048	580	741	572	857	.6	.7
Puerto Rico	326	372	385	435	861	.2	.7
Other	1,941	1,800	1,519	1,443	1,163	1.0	.9
	6,756	5,615	5,280	5,094	5,357	3.6	4.2
Asia Pacific							
Japan	3,905	2,725	2,060	1,699	1,910	2.1	1.5
Other	3,670	2,593	2,216	1,589	1,279	1.9	1.0
	7,575	5,318	4,276	3,288	3,189	4.0	2.5
Country risk provision	(444)	(929)	(940)	(1,107)	(1,383)	(.3)	(1.1)
General provision	(700)	(300)	(300)	(550)	(325)	(.4)	(.3)
Total	$189,121	$163,768	$158,974	$151,417	$127,553	100.0%	100.0%

(1) Earning assets refers to loans, securities, and deposits with other banks (including assets funded in local currencies). The location of ultimate risk is the country of origin of the borrower/issuer, or of another entity which has guaranteed performance on the exposure.

Credit risk management

In managing its credit exposures, the bank is committed to a number of important principles, including:

- Diversifying risk effectively across clients, industry sectors, terms, products and geographic areas.
- Not sacrificing portfolio quality for growth, even in good economic times.
- Pricing credit to ensure the bank is adequately compensated for the risk it assumes.
- Applying consistent exposure measurements across different businesses and products.

Consistent with these principles, the bank responded to increased losses in its portfolio in 1992 and 1993, following the last recession, by lowering industry and geographic concentrations and reducing exposures to weaker borrowers. As shown in Table 20 on page 53, the bank's loans to domestic commercial real estate were reduced from 6.6% in 1992 to 3.3% in 1996. As well, loans to the forestry and paper products sector declined from 3.4% to 1.3% in that period, while those to the merchandising sector (retail and wholesale) fell from 4.2% in total to 2.7%. Excluding reverse repurchase agreements (short-term, fully-secured credit instruments to financial institutions), no industry accounted for more than 3.3% of total domestic loans at the end of 1996.

With regard to geographic diversification, Table 19 above shows that, with the exception of Canada and the United States, no country accounts for more than 3.6% of total earning assets.

The bank has also developed forward-looking strategies for its largest corporate relationships, streamlined credit processes and improved training.

In 1996, a number of additional steps were taken to enhance the bank's forward-looking approach to credit risk management and to better monitor the credit portfolio.

First, the process of establishing forward-looking strategies for the bank's 7,000 mid-market commercial customers (with authorized exposures of $5-$50 million) was completed this year. This initiative, first launched in 1995, followed a project the previous year to establish strategies for the 650 borrowers with exposures of over $50 million.

The bank also continued this year to move risk managers into commercial banking centres and out of head office and district locations. This process has led to greater responsiveness to customers and better teamwork with account managers.

To better track and forecast default and loss probabilities, a credit migration model was developed for implementation in early 1997. This model tracks the performance of exposures in different risk classes over time. By determining the migration, default and loss rates for each class, provisioning levels can be further refined. As well, the model will help to identify changes in portfolio quality and improve the quantification of portfolio risk.

At the end of 1996, the bank refined its provisioning policy. This policy seeks to establish higher levels of general provisions as the economy matures to cover credit losses inherent in the current portfolio, which may only be attributed to specific accounts sometime in the future. The estimate of such credit losses is based on management's judgement as to how current economic factors, industry

TABLE 20 LOANS BY INDUSTRY AND BY LOCATION OF ULTIMATE RISK, NET OF SPECIFIC PROVISIONS

AS AT SEPTEMBER 30 ($ MILLIONS)	1996	1995	1994	1993	1992	1996	1992
Domestic							
Atlantic provinces	$ 6,450	$ 6,200	$ 6,092	$ 6,165	$ 6,168	4.9%	6.0%
Quebec	12,345	12,399	12,378	12,801	11,123	9.4	10.8
Ontario	50,908	45,400	44,974	46,095	38,482	38.9	37.2
Prairie provinces	16,124	15,594	14,803	14,883	13,150	12.3	12.7
British Columbia	17,745	17,143	16,829	16,056	13,605	13.6	13.1
General provision	(700)	(300)	(300)	(550)	(325)	(.5)	(.3)
	102,872	96,436	94,776	95,450	82,203	78.6	79.5
Consisting of:							
Residential mortgages	47,357	44,358	43,632	43,244	31,669	36.2	30.6
Consumer instalment and other personal loans	17,427	15,974	15,187	15,131	14,475	13.3	14.0
Credit card loans	3,526	3,459	3,325	3,134	2,566	2.7	2.5
Financial institutions							
Assets purchased under reverse repurchase agreements	6,252	1,706	1,477	780	468	4.8	.4
Other	3,839	4,434	5,596	4,142	3,169	2.9	3.1
Commercial real estate	4,345	4,334	4,684	5,868	6,864	3.3	6.6
Manufacturing	3,264	3,216	2,248	2,521	2,383	2.5	2.3
Agriculture	3,258	3,151	2,984	3,004	2,953	2.5	2.9
Forestry and paper products	1,680	2,400	2,758	3,232	3,560	1.3	3.4
Commercial mortgages	2,254	2,136	2,097	2,376	691	1.7	.7
Retail merchandising	1,895	1,936	1,912	1,926	2,080	1.4	2.0
Wholesale merchandising	1,643	1,918	1,849	2,031	2,253	1.3	2.2
Mining and energy	817	1,100	1,191	1,292	1,464	.6	1.4
Transportation and communication	891	1,009	986	1,278	1,334	.7	1.3
Other	5,124	5,605	5,150	6,041	6,599	3.9	6.4
General provision	(700)	(300)	(300)	(550)	(325)	(.5)	(.3)
	102,872	96,436	94,776	95,450	82,203	78.6	79.5
International							
Canadian risk	1,319	1,445	1,519	1,051	1,339	1.0	1.3
United States	12,854	8,772	8,966	10,284	9,592	9.8	9.3
Europe	5,408	4,824	4,611	5,046	5,313	4.2	5.2
Latin America and Caribbean	4,331	3,240	4,341	4,215	4,791	3.3	4.6
Asia Pacific	4,185	2,535	2,057	1,776	1,489	3.2	1.4
Country risk provision*	(118)	(263)	(297)	(1,038)	(1,376)	(.1)	(1.3)
	27,979	20,553	21,197	21,334	21,148	21.4	20.5
Total	$130,851	$116,989	$115,973	$116,784	$103,351	100.0%	100.0%

* *The country risk provision shown has been reduced by $326 million (1995 – $666 million; 1994 – $643 million; 1993 – $69 million), which represents the amount deducted from securities in respect of restructured collateralized bonds of less developed countries.*

trends and risk ratings of credit exposures result in loan impairment.

In managing its credit portfolio, the bank has increasingly focused on early warning systems and other methods to detect problems before losses occur.

A series of financial strength indicators was developed for 38 industries following an exercise to tier, on the basis of credit quality, all major existing and potential borrowers in these sectors. These indicators are now being used as early warning systems for each sector. In addition, this concept has been extended to industry sub-sectors and large single-name or group-name exposures for which individual early warning systems have been established.

The bank also further improved its Watchlist process in 1996. An automated system for tracking existing and potential problem exposures was developed and became available to senior management and risk managers. The system now provides up-to-date status reports on all accounts included in the Watchlist and allows managers to make immediate updates on changing conditions affecting their exposures.

To better manage consumer credit risk, significant enhancements are being made to the bank's credit scoring system. Credit scoring is a statistical method of analyzing borrower characteristics (such as credit history, debt-to-income ratios and homeownership) in order to predict future credit performance. This system is being used to assess new loan applications and to predict the future behaviour of existing customers based on their past performance. It has led to greater consistency in risk

TABLE 21 COMMERCIAL REAL ESTATE

AS AT OCTOBER 31 ($ MILLIONS)

Outstandings	Gross outstandings		Allowance for credit losses		Net outstandings		Allowance / gross outstandings	
	1996	1995	1996	1995	1996	1995	1996	1995
Atlantic provinces	$ 99	$ 115	$ 2	$ 2	$ 97	$ 113	2%	2%
Quebec	844	675	41	31	803	644	5	5
Metropolitan Toronto	1,847	2,188	226	423	1,621	1,765	12	19
Rest of Ontario	766	815	6	20	760	795	1	2
Prairie provinces	316	375	3	3	313	372	1	1
British Columbia	845	762	1	13	844	749	–	2
Total Canada	4,717	4,930	279	492	4,438	4,438	6	10
United States	500	797	19	103	481	694	4	13
Other international	450	435	4	41	446	394	1	9
Total	$5,667	$6,162	$302	$636	$5,365	$5,526	5%	10%

Impaired Loans (ILs)	Gross ILs		Net ILs		Net ILs / net outstandings		Coverage ratio*	
	1996	1995	1996	1995	1996	1995	1996	1995
Atlantic provinces	$ 3	$ 5	$ 1	$ 3	1%	3%	67%	40%
Quebec	113	91	72	60	9	9	36	34
Metropolitan Toronto	436	917	210	494	13	28	52	46
Rest of Ontario	31	59	25	39	3	5	19	34
Prairie provinces	3	11	–	8	–	2	100	27
British Columbia	13	43	12	30	1	4	8	30
Total Canada	599	1,126	320	634	7	14	47	44
United States	21	130	2	27	–	4	90	79
Other international	11	85	7	44	2	11	36	48
Total	$631	$1,341	$329	$705	6%	13%	48%	47%

* *Allowance for credit losses as a percentage of related gross impaired loans.*

measurement, better pricing decisions and a tailoring of collection strategies based on risk. Credit scoring, long used for personal loans and credit cards was introduced in 1996 for residential mortgages and selected small business lending.

Environmental risk management

The bank's operations do not pose a significant threat to the environment. However, as a lender it can incur losses if a borrower cannot repay its loans due to the expense of an environmental clean-up, or if the bank becomes directly liable for a clean-up because it is deemed to have taken ownership or control of a contaminated property.

To manage such environmental risks, the bank has developed detailed environmental risk assessment criteria and procedures and provided extensive training on their use to all account managers.

The Environmental Risk Management Group, formed in 1993, works closely with business and operations units to improve policies and practices relating to the environment.

Recognizing that the bank must conduct its own operations in compliance with environmental laws, a position was established in 1995, within real estate operations, to develop and implement a formal system to ensure such compliance. The position also co-ordinates efforts to conserve energy, to reduce, reuse and recycle paper and other materials, and to control wastes.

Commercial real estate

The bank's strategy for commercial real estate remains to lower its overall exposure, by reducing concentrations and exiting relationships with weaker borrowers, while pursuing quality business from new and existing customers.

Through a combination of restructurings, repayments, loan sales and write-offs, the bank's commercial real estate outstandings have been reduced from a high of just over $10 billion in 1991 to $5.7 billion at October 31, 1996. Included among these initiatives was the sale of $382 million in gross outstandings of commercial real estate in 1995, the first bulk sale of commercial real estate exposures by a Canadian financial institution.

Further improvement in the commercial real estate exposure in 1996 was reflected in significant reductions in outstandings, impaired loans and provisions for credit losses. Concentrations were decreased and the internal industry risk rating for the portfolio improved and is now in line with most other sectors to which the bank lends.

As shown in Table 21 above, commercial real estate gross outstandings were down

Internal risk rating for commercial real estate is now in line with most other sectors

COMMERCIAL REAL ESTATE
($ BILLIONS)

$495 million or 8% in 1996, following a 16% reduction in 1995. Gross impaired loans declined by $710 million or 53% this year, largely reflecting repayments by a number of large accounts. Write-offs totalled $254 million versus $453 million in 1995.

The commercial real estate coverage ratio (the allowance for credit losses as a percentage of gross impaired loans) was 48% this year, similar to the 1995 level.

Domestic: During 1996, further progress was made in reducing the concentration of commercial real estate exposure in metropolitan Toronto. This market accounted for 33% of commercial real estate gross outstandings at October 31, 1996, versus 36% a year ago and a peak of 44% in 1993.

Commercial real estate gross impaired loans in metropolitan Toronto fell sharply in 1996, by $481 million or 52%.

As shown in Table 26 on page 60, the bank had a $74 million net loan loss recovery in its portfolio in 1996 versus a provision for credit losses of $73 million in 1995. This reflected the successful resolution of a number of accounts this year.

International: Gross exposure in the international commercial real estate portfolio fell by 23% in 1996, as lower outstandings in the U.S. more than offset an increase in exposure to other areas, primarily the United Kingdom where improved market conditions created opportunities to add high-quality business.

Gross impaired loans in the international portfolio were down by 85%, reflecting the resolution of a number of impaired accounts, mainly in the U.S.A. and the U.K.

Less developed countries (LDCs)

Virtually all of the bank's LDC portfolio shown in Table 22 below is in the form of bonds received in lieu of principal under Brady-type debt restructuring plans.

As shown in Table 22 below, the face value of the bank's LDC portfolio fell by over $900 million or 54% in 1996. Largely fuelled by the strength of U.S. long bond prices, the secondary markets for these LDC securities rose sharply near the end of the year, prompting the bank to sell a sizeable portion of its exposure.

Among the securities sold were bonds received in lieu of principal (Brady bonds) with a face value of $898 million. Since Brady bonds are carried on the bank's balance sheet at their face value less the country risk provision, proceeds from the sale of these bonds in excess of their net book value allowed the bank to reverse $300 million of the country risk provision this year, while leaving the LDC provisioning ratio virtually unchanged.

Also sold were essentially all of the bank's LDC bonds received in lieu of past due interest (PDI bonds) from Brazil, the Dominican Republic and Argentina. These bonds were carried on the bank's balance sheet at nil value and, when sold, their proceeds were added to net interest income. The sale of these bonds contributed $78 million to net interest income in 1996 ($58 million after income taxes), with $58 million relating to bonds from Brazil, $15 million to bonds from the Dominican Republic and $5 million to Argentine bonds. In 1995, the sale of Brazilian PDI bonds had contributed $50 million to net interest income ($30 million after income taxes).

TABLE 22 LDC EXPOSURE

AS AT OCTOBER 31 ($ MILLIONS)	1996	1995	1994	1993	1992
Exposure *(1) (2)*					
Brazil	$576	$1,193	$1,170	$1,255	$1,362
Argentina	183	234	270	267	387
Venezuela	–	189	231	222	251
Dominican Republic	–	66	68	76	72
Other	35	39	34	201	286
	794	1,721	1,773	2,021	2,358
Country risk provision *(1)*	(589)	(1,294)	(1,307)	(1,415)	(1,676)
Exposure, net of country risk provision	$205	$ 427	$ 466	$ 606	$ 682
Country risk provision, as a percentage of exposure	74%	75%	74%	70%	71%
Market value surplus *(3)*	$220	$ 300	$ 350	$ 490	$ 265

(1) Exposure in the 48 designated countries represents the face value of cross-border exposure (i.e. excluding locally funded business), net of any specific provisions. The exposure and the country risk provision have been grossed-up to include previously recorded writedowns on loan exchanges.
(2) In accordance with the guidelines of the Superintendent of Financial Institutions Canada, short-term trade financing was excluded from LDC exposure amounts commencing in 1993. As at October 31, 1996, the face and carrying values of LDC short-term trade financing was $1,056 million (1995 – $692 million). Beginning November 1, 1995, new business with these countries is exempt from inclusion in total LDC exposures in accordance with the guidelines of the Superintendent of Financial Institutions Canada. As at October 31, 1996, the carrying value of such business was $131 million.
(3) The excess of market value over net book value of LDC exposures. Also includes exposures related to Mexico.

TABLE 23 CHANGES IN IMPAIRED LOANS					
AS AT OCTOBER 31 ($ MILLIONS)	1996	1995	1994	1993	1992
Gross impaired loans, beginning of year	$2,944	$4,424	$7,582	$7,056	$3,924
Net additions (reductions) in impaired loans	384	(255)	(1,128)	1,643	3,639
Write-offs and translation adjustments	(952)	(1,225)	(2,030)	(1,117)	(507)
Gross impaired loans, end of year	2,376	2,944	4,424	7,582	7,056
Allowance for credit losses, end of year (1)	(1,152)	(1,496)	(2,031)	(3,774)	(3,250)
Net impaired loans, excluding general provision	1,224	1,448	2,393	3,808	3,806
General provision	(700)	(300)	(300)	(550)	(325)
Net impaired loans, end of year	$ 524	$1,148	$2,093	$3,258	$3,481

(1) Shown before general provision and net of that portion of the country risk provision that is in excess of impaired LDC loans.

At October 31, 1996, the market values of the bank's remaining portfolio of LDC Brady bonds exceeded their net book value by $220 million.

Price changes in the secondary market for LDC Brady bonds will largely determine the timing of additional sales of this portfolio.

PORTFOLIO QUALITY

Overview

The trends in overall credit quality remained favourable in 1996 with impaired loans and credit losses down significantly from the 1995 levels. In addition, the bank added $400 million to its general provision for credit losses this year, consistent with a refined provisioning policy adopted at the end of 1996 and discussed on page 52. The general provision included in the allowance for credit losses now totals $700 million.

Gross impaired loans

As shown in Table 23 above, gross impaired loans declined by $568 million or 19% in 1996, continuing the favourable trend of the past three years.

This year's reduction reflected $952 million of write-offs and translation adjustments, down 22% from a year ago.

Partially offsetting the write-offs were net additions to gross impaired loans of $384 million, reflecting the classification as impaired of two large accounts.

As shown in Table 24 on page 57, domestic gross impaired loans declined by $372 million or 15% in 1996, with domestic business loans down $335 million or 16%. Domestic commercial real estate gross impaired loans were $527 million or 47% lower, reflecting further progress in reducing concentrations and exposures to weaker borrowers, particularly in metropolitan Toronto. Those related to small businesses and agricultural accounts were down 31% and 29%, respectively.

Domestic consumer gross impaired loans fell by $37 million or 11%, of which $23 million related to residential mortgages and the remainder to consumer instalment and other personal loans. In the credit card portfolio, 90-day plus delinquencies were 1.07% of total outstandings at October 31, 1996 versus 1.12% a year ago.

Management has been encouraged by the performance of its consumer loan portfolio in light of higher personal bankruptcy rates in Canada in 1996. However, it continues to carefully monitor this portfolio and to enhance its risk management policies as mentioned on page 53.

International gross impaired loans, excluding LDC loans, fell by $200 million or 45% this year.

Total gross impaired loans amounted to 1.7% of gross loans and bankers' acceptances at October 31, 1996, down from 2.3% a year ago.

Net impaired loans

As shown in Table 24 on page 57, net impaired loans, that is gross impaired loans less the allowance for credit losses, declined by $624 million or 54% in 1996. Of this amount, $105 million related to the adoption of a new impaired loan standard, discussed in the allowance for credit losses section that follows on page 59.

The trends supporting this year's reduction largely mirrored those discussed in the preceding section on gross impaired loans.

Net impaired loans improved to .4% of total loans and bankers' acceptances in 1996, from .9% in 1995 and a peak of 3.3% in 1992.

The bank expects its net impaired loans to total loans and bankers' acceptances ratio to remain fairly close to the current level in 1997. In the 1995 Annual Report, the bank had expressed the view that a ratio of 1.0% over a full economic cycle was a desirable target. However, with the significant improvement in portfolio quality in 1996 and an increase in the general provision to $700 million, it now believes that a ratio below 1.0% may be attainable over a full economic cycle.

Net impaired loans are now .4% of loans and bankers' acceptances versus .9% in 1995

TABLE 24 IMPAIRED LOANS BY GEOGRAPHIC AREA AND BY TYPE OF BUSINESS

	1996		1995		1994	1993	1992
AS AT OCTOBER 31 ($ MILLIONS)	GROSS	NET (1)	GROSS	NET (1)	NET (1)	NET (1)	NET (1)
Domestic							
Atlantic provinces	$ 61	$ 32	$ 74	$ 46	$ 88	$ 82	$ 51
Quebec	544	320	279	173	265	209	211
Ontario	1,020	437	1,880	893	1,479	2,207	2,176
Prairie provinces	390	296	129	88	196	475	434
British Columbia	52	31	77	52	57	254	270
Total Domestic	2,067	1,116	2,439	1,252	2,085	3,227	3,142
Consisting of:							
Business loans							
Commercial real estate	599	320	1,126	634	1,011	1,202	1,142
Small business	205	71	299	150	134	214	145
Agriculture	51	40	72	58	73	91	65
Other	907	522	600	202	622	1,378	1,438
	1,762	953	2,097	1,044	1,840	2,885	2,790
Residential mortgages	188	123	211	167	179	225	199
Consumer instalment and other personal loans	117	40	131	41	66	117	153
Total Domestic	2,067	1,116	2,439	1,252	2,085	3,227	3,142
International							
United States	22	2	131	21	145	103	189
Europe	86	35	212	115	97	145	121
Latin America and Caribbean	84	52	99	60	56	77	61
Asia Pacific	54	19	4	–	10	23	14
Total International, excluding LDC loans	246	108	446	196	308	348	385
LDC loans	63	–	59	–	–	233	279
Total International	309	108	505	196	308	581	664
Total, before general provision	2,376	1,224	2,944	1,448	2,393	3,808	3,806
General provision	–	(700)	–	(300)	(300)	(550)	(325)
Total, after general provision	$2,376	$ 524	$2,944	$1,148	$2,093	$3,258	$3,481
Total loans and acceptances							
Domestic							
Residential mortgages		$ 47,549		$ 44,564	$ 43,525	$ 43,177	$ 32,095
Consumer instalment and other personal loans		17,738		16,218	15,907	16,021	14,973
Credit card loans		3,522		3,435	3,321	3,090	2,532
Business and government loans and acceptances		50,017		43,070	41,581	43,410	39,525
Total Domestic		118,826		107,287	104,334	105,698	89,125
International		24,388		18,590	17,257	17,073	16,749
Total		$143,214		$125,877	$121,591	$122,771	$105,874
Net impaired loans as a percentage of related loans and acceptances							
Domestic							
Residential mortgages		.3%		.4%	.4%	.5%	.6%
Consumer instalment and other personal loans		.2		.2	.4	.7	1.0
Business loans and acceptances		1.9		2.4	4.4	6.6	7.1
Total Domestic		.9		1.2	2.0	3.1	3.5
International		.4		1.1	1.8	3.4	4.0
Total before general provision		.9%		1.2%	2.0%	3.1%	3.6%
Total after general provision		.4%		.9%	1.7%	2.7%	3.3%

(1) Net of allowance for credit losses.

TABLE 25 ALLOWANCE FOR CREDIT LOSSES					
AS AT OCTOBER 31 ($ MILLIONS)	1996	1995	1994	1993	1992
Balance at beginning of year	$2,669	$3,202	$4,324	$3,575	$1,957
Cumulative effect of the initial adoption of the Impaired Loans accounting standard	130	–	–	–	–
Provision for credit losses	440	580	820	1,750	2,050
Write-offs					
Domestic					
Residential mortgages	(46)	(29)	(44)	(18)	(13)
Consumer instalment and other personal loans	(133)	(134)	(152)	(167)	(170)
Credit card loans	(104)	(90)	(82)	(73)	(64)
Business loans and acceptances	(542)	(839)	(1,499)	(616)	(371)
	(825)	(1,092)	(1,777)	(874)	(618)
International, excluding LDCs	(124)	(125)	(109)	(339)	(41)
LDC exposures	(186)	–	(181)	(90)	–
	(1,135)	(1,217)	(2,067)	(1,303)	(659)
Recoveries					
Domestic					
Residential mortgages	11	–	1	–	–
Consumer instalment and other personal loans	21	18	17	12	10
Credit card loans	28	26	28	23	–
Business loans and acceptances	65	58	42	62	51
	125	102	88	97	61
International	9	10	–	19	51
	134	112	88	116	112
Other, primarily translation adjustments on provisions denominated in foreign currencies	(3)	(8)	37	66	115
Royal Trust – balance at date of acquisition	–	–	–	120	–
Balance at end of year	$2,235	$2,669	$3,202	$4,324	$3,575
Allowance for credit losses					
Domestic					
Residential mortgages	$ 65	$ 44	$ 23	$ 43	$ 2
Consumer instalment and other personal loans	77	90	84	68	66
Business loans and acceptances	1,509	1,353	1,893	2,782	1,654
	1,651	1,487	2,000	2,893	1,722
International	584	1,182	1,202	1,431	1,853
Total	$2,235	$2,669	$3,202	$4,324	$3,575
Coverage ratios *(1)*					
Domestic					
Residential mortgages	35%	21%	11%	23%	1%
Consumer instalment and other personal loans	66	69	56	37	30
Business loans and acceptances	86	65	55	54	43
	80	61	53	52	41
International, excluding LDCs	56	56	46	48	38
Total, excluding LDCs	77%	60%	52%	52%	41%

(1) Allowance for credit losses as a percentage of related gross impaired loans.

Allowance for credit losses

As shown in Note 5 to the financial statements on page 88, the allowance for credit losses consisted of $1,091 million of specific provisions, a $700 million general provision and a $444 million country risk provision.

The general provision was up $400 million from 1995, as the bank added this amount to its general provision for credit losses in the fourth quarter of 1996, following the refinement of its provisioning policy described on page 52. This policy suggests higher levels of general provisions as the economy matures, to cover credit losses inherent in the current portfolio which may only be attributed to specific accounts sometime in the future.

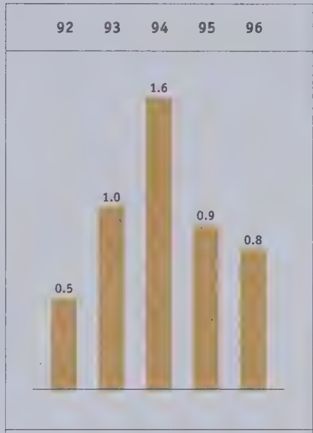
Also in the fourth quarter, strong secondary market prices for LDC Brady bonds led the bank to sell Brady bonds with a face value of $898 million at prices above the bonds' net book value. This enabled the bank to reverse $300 million of its country risk provision this year and still end the year with a 74% LDC provisioning ratio, virtually unchanged from last year.

Although $340 million of specific provisions were recorded on the income statement in 1996, specific provisions in the allowance for credit losses declined by $349 million, largely reflecting write-offs during the year, as shown in Note 5 to the financial statements on page 88.

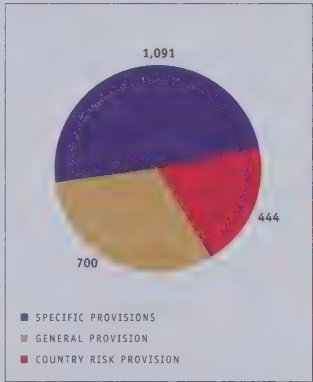
However, write-offs were down 7% from 1995. Write-offs, net of recoveries, totalled .8% of average loans and bankers' acceptances in 1996 compared to .9% in 1995 and 1.6% in 1994.

A new impaired loan accounting standard served to increase the allowance for credit losses and reduce net impaired loans by $105 million at October 31, 1996. This standard, issued by the Canadian Institute of Chartered Accountants and the subject of an implementation guideline by the Superintendent of Financial Institutions Canada, requires that impaired loans (previously referred to as non-accrual loans) be measured based on the present value of expected future cash flows, discounted at the interest rate inherent in the loan. The standard was adopted effective November 1, 1995.

As shown in Table 25 on page 58, the bank's coverage ratio, excluding LDCs, rose to 77% from 60% a year ago. This is among the highest such ratios in the Canadian banking industry.



NET WRITE-OFFS
(% OF LOANS AND BANKERS' ACCEPTANCES)



ALLOWANCE FOR CREDIT LOSSES
($ MILLIONS AT OCTOBER 31, 1996)

Market value surpluses and general provision

	1996	1995	1994
LDC Portfolio*	$220	$300	$350
Securities portfolio**	480	210	(270)
General provision	700	300	300

* including Mexico
** excluding LDC and Mexican securities

TABLE 26 PROVISION FOR CREDIT LOSSES BY GEOGRAPHIC AREA AND BY TYPE OF BUSINESS

FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS)	1996	1995	1994	1993	1992
Provision for credit losses					
Domestic					
Specific provisions					
Atlantic provinces	$ 34	$ 37	$ 56	$ 55	$ 53
Quebec	165	60	189	110	199
Ontario	61	341	855	1,297	1,309
Prairie provinces	83	34	(36)	112	204
British Columbia	(3)	12	(28)	40	113
	340	484	1,036	1,614	1,878
General provision	400	–	(250)	225	325
Total Domestic	740	484	786	1,839	2,203
Consisting of:					
Business loans					
Commercial real estate	(74)	73	362	777	751
Small business	89	101	184	127	108
Agriculture	(5)	1	(2)	4	19
Other	130	80	265	469	754
General provision	400	–	(250)	225	325
	540	255	559	1,602	1,957
Residential mortgages	29	43	21	38	13
Consumer instalment and other personal loans	95	123	153	149	169
Credit card loans	76	63	53	50	64
Total Domestic	740	484	786	1,839	2,203
International					
Specific provisions					
United States	(14)	71	22	59	72
Europe	(22)	(6)	(1)	50	57
Latin America and Caribbean	2	28	16	44	18
Asia Pacific	34	3	(3)	8	–
	–	96	34	161	147
Country risk provision	(300)	–	–	(250)	(300)
Total International	(300)	96	34	(89)	(153)
Total	$ 440	$580	$ 820	$1,750	$2,050
Average loans and acceptances					
Domestic					
Residential mortgages	$ 45,810	$ 43,736	$ 43,358	$ 33,821	$ 30,342
Consumer instalment and other personal loans	16,582	15,902	15,809	14,398	14,724
Credit card loans	3,447	3,371	2,906	2,643	2,497
Business and government loans and acceptances	42,519	40,518	42,719	40,923	42,821
Total Domestic	108,358	103,527	104,792	91,785	90,384
International	22,020	17,932	16,949	16,777	15,992
Total	$130,378	$121,459	$121,741	$108,562	$106,376
Provision for credit losses as a percentage of related average loans and acceptances					
Domestic					
Residential mortgages	.06%	.10%	.05%	.11%	.04%
Consumer instalment and other personal loans	.57	.77	.97	1.03	1.15
Credit card loans	2.20	1.87	1.82	1.89	2.56
Business and government loans and acceptances	1.27	.63	1.31	3.91	4.57
Total Domestic	.68	.47	.75	2.00	2.44
International	(1.36)	.54	.20	(.53)	(.96)
Total	.34%	.48%	.67%	1.61%	1.93%

Provision for credit losses

As shown in Table 26 on page 60, the provision for credit losses in 1996 was $440 million, down $140 million or 24% from 1995.

As a percentage of average loans and bankers' acceptances, the provision for credit losses was .34% this year, down significantly from .48% a year ago.

Specific provisions, which accounted for $340 million of this year's provision for credit losses, were down $240 million or 41% from last year.

Specific provisions in the domestic business loan portfolio were $140 million, down $115 million or 45%, largely reflecting a net recovery of $74 million in the domestic commercial real estate portfolio versus $73 million of specific provisions in 1995. In addition, specific provisions among domestic small business accounts were $12 million lower.

In the domestic consumer loan portfolio, specific provisions were down $29 million or 13% as reductions in residential mortgages and other consumer loans more than offset an increase in provisions related to credit card outstandings.

Specific provisions for credit losses were down to $340 million from $580 million in 1995

The bank expects its provision for credit losses in 1997 to be lower than this year's level

Specific provisions in the international loan portfolio were reduced to nil from $96 million in 1995, largely reflecting the reversal of earlier provisions relating to some commercial real estate exposures in the U.S.A and the United Kingdom.

Also included in this year's provision for credit losses were $400 million of general provisions and a reversal of $300 million of the country risk provision, as described in the Allowance for Credit Losses section on page 59.

With a much improved credit portfolio, a favourable trend apparent in most sectors and a $700 million general provision, the bank expects its provision for credit losses in 1997 to be lower than this year's level.

MARKET RISK MANAGEMENT

Market risk is the risk of loss that results from changes in interest rates, foreign exchange rates, equity and commodity prices. The two main components of market risk for the bank are interest rate risk and foreign exchange rate risk.

Interest rate risk is the potential impact on the bank's earnings (net interest income) and economic value (market value) due to changes in interest rates. The key sources of interest rate risk to which the bank is exposed are repricing mismatch risk, basis risk and option risk. Repricing mismatch risk arises when there are mismatches or gaps in the amount of assets, liabilities and off-balance sheet instruments that mature or reprice in a given period. Gap mismatches result from customers' term preferences, strategic positioning to enhance profitability and transactions such as the issuance of fixed rate capital. The interest rate exposure of such gap mismatches is a function of the magnitude and direction of interest rate changes, and the size and maturity profile of the related positions. Basis risk arises when the differentials between various indices upon which the bank prices its products change. Option risk includes both embedded interest rate options risk and traded interest rate options risk. Embedded interest rate options risk exists when a product contains a feature, commonly referred to as an embedded option, which allows the customer to modify their cash flows or price transactions at guaranteed rates, such as mortgage commitments and extendable and redeemable deposit instruments. Traded interest rate options risk arises from the effect of interest rate movements on the market value of the traded option portfolio.

Interest rate risk relating to the bank's trading portfolios is managed primarily through a value-at-risk methodology, while interest rate risk relating to the bank's non-trading activities is monitored and managed through the use of other risk management tools, including gap analysis and simulation modelling, as discussed later in this section under "Asset Liability Management Activities".

The bank is exposed to foreign exchange rate risk in both the spot and forward foreign exchange markets. Spot foreign exchange risk arises when the total present value of assets in any currency does not equal the total present value of liabilities in that currency. Unless there is a match between the level of assets, liabilities and off-balance sheet items in each currency, there is a risk that exchange rate movements may have a negative financial impact. Forward foreign exchange market risk arises when, for a given currency, the maturity profile of forward purchases differs from the maturity profile of forward sales. Forward foreign exchange rates are based on foreign exchange spot rates and interest rate differentials between the respective currencies. Foreign exchange rate risk is primarily monitored and managed through a value-at-risk methodology as discussed below in the "Trading Activities" section.

The bank has established risk management policies and limits within which exposure to market risk is monitored and controlled. Market risks associated with trading and other banking activities are managed separately, as discussed below.

Trading activities

Market risk associated with trading activities is a result of market-making, positioning, sales and arbitrage activities in the foreign exchange, interest rate, equity and commodity markets. Market-making involves making bid and ask prices to other market participants with the intention of generating revenues based on spread and volume. Net open positions created as a result of these activities are typically left open for short periods before being hedged through the use of derivatives or cash transactions. Positioning involves managing market risk positions for longer periods to take advantage of the bank's anticipated movements in markets and thereby enhance profitability. Positioning activities create the key source of foreign exchange rate risk to the bank. Sales activities involve providing products to clients at competitive prices, whereas arbitrage activities involve generating revenue by identifying and profiting from price differentials between markets and products.

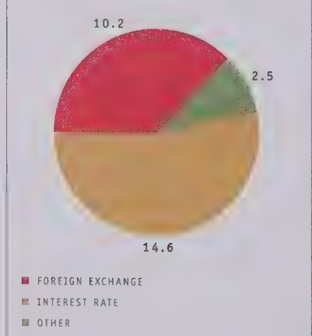
Trading risk management monitors and controls trading-related market risk through a "value-at-risk" (VAR) methodology. VAR is a risk measurement concept which uses statistical models to calculate with a given confidence level the maximum loss in market value that the bank would experience from an adverse one-day movement in market rates and prices. VAR takes into account numerous variables that may cause a change in the value of portfolios, including interest rates, foreign exchange rates, equity and commodity prices, volatilities and correlations between these variables. The VAR methodology provides a uniform measure for evaluating and communicating relative levels of market risk across trading businesses of the group as well as providing a mechanism for aggregating bank-wide market risk exposures into a single number which encompasses all major underlying risks.

VAR is calculated daily for each major portfolio and all trading portfolios combined. The bank's methodology assumes a one day holding period and a 99% confidence level which implies that actual changes in market value may exceed the VAR approximately 1% of the time. A global VAR is calculated by combining the significant portfolios using two different correlation assumptions.

The first calculation assumes that the effects of adverse price movements within the portfolio do not occur at the same time (i.e. they are uncorrelated). This assumption provides a reasonable floor against which risk measures are monitored. The bank uses the uncorrelated assumption as a basis for setting global, strategic and tactical limits. This VAR methodology continues to be refined to incorporate actual observed correlations.

The second calculation assumes that each portfolio experiences an adverse price movement at the same time, and accordingly, the VAR is calculated separately for each risk exposure and summed (i.e. they are perfectly correlated). This calculation results in a higher and more conservative measure of global VAR than that provided using the uncorrelated assumption. The assumption of perfect correlation is used by the bank as an upper boundary of exposure against which actual market risk can be evaluated. It is extremely unlikely that the maximum loss for the bank would exceed the global VAR using a perfectly correlated assumption as the bank has a well diversified trading portfolio.

The chart below shows a global VAR of $27.3 million using the perfectly correlated assumption for the bank's combined trading activities by major risk class as at October 31, 1996. Global VAR based on an uncorrelated assumption as at October 31, 1996 was $10 million. The bank's portfolio at October 31, 1996 is most sensitive to changes in interest and foreign exchange rates. The level of market risk to which the bank is exposed varies daily depending upon market conditions and expectations of future price and market movements. The bank's VAR has remained relatively stable throughout the year.



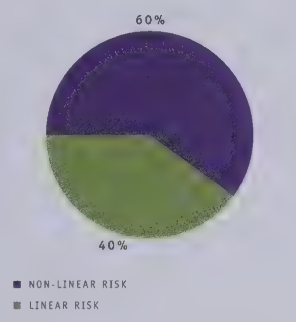
GLOBAL VAR BY RISK CATEGORY
($ MILLIONS AT OCTOBER 31, 1996)

The actual daily trading-related profit or loss experienced by the bank has not exceeded the $10 million uncorrelated VAR during fiscal 1996.

The bank distinguishes between linear and non-linear risk. Linear risk measures the directional risk that arises to the bank from entering into conventional, or "vanilla", products, such as interest rate swaps, foreign exchange spot and forward contracts or securities. Non-linear risk is the risk the bank is exposed to from entering into options, including interest rate, foreign currency, equity and commodity-based option contracts, which implicitly result in exposures to volatility and spread risks. The chart below shows the proportion of linear and non-linear risk inherent in the bank's combined trading activities as at October 31, 1996.

Authorized market risk limits are observed and actively managed by each trading desk. The bank's Trading Risk Management group, which is independent of the trading function, oversees trading risks and is responsible for developing and implementing comprehensive risk measures, policies and limits.

The group is also responsible for the daily monitoring of global trading risk exposures against actual limits using the VAR methodology, assessing global risk/return trends and alerting senior management to adverse trends or positions. In addition, the group establishes volatility and correlation parameters of market rates and prices for the estimation of market risks in each portfolio, and also approves all key valuation models.



GLOBAL VAR BY RISK TYPE
(AT OCTOBER 31, 1996)

Management recognizes that VAR is not an absolute measure of market risk. Hence, VAR is supplemented with a number of other limits, to control market liquidity risks, including net position gap, term and volume limits for all products, which include foreign exchange, interest rate, equity and commodity instruments. Furthermore, a hierarchy of tactical and strategic limits overlay these operational limits to ensure a diversification of risk exposure and a controlled and prudent management of the trading positions. Stress testing, which complements the VAR methodology, involves simulating the potential loss that may occur under various market conditions. Stress testing is currently being examined by Trading Risk Management and is expected to be implemented by the bank over the next year.

During 1996, the Bank for International Settlements (BIS) finalized its proposals to amend the 1988 Capital Accord to incorporate market risk. These amendments are expected to be issued by the Superintendent of Financial Institutions Canada, requiring the bank to report under the new guidelines in January 1998. Further discussions of these amendments are contained in the Regulatory Capital section on page 76, under "Recent regulatory developments".

Asset liability management activities

Most banking activities, which include deposit taking and lending, expose the bank to market risk, primarily in the form of interest rate risk. The Asset Liability Management ("ALM") group, which is independent of the trading function, actively manages and monitors the bank's consolidated interest rate exposure for the non-trading functions of the bank. In addition, the ALM group oversees a limited number of authorized units who manage their interest rate exposure at a decentralized level within risk and term limits established by the ALM group.

The goal of the ALM group is to achieve a balance between enhancing net interest income and reducing risk to earnings from adverse movements in interest rates. This goal is achieved through prudent management of the bank's position, by adjusting the bank's risk profile within pre-determined limits and by positioning exposures to take advantage of the shape of the yield curve and expected changes in the general level of interest rates. The mix of on-balance sheet instruments and derivatives used to manage interest rate risk is based on many factors including economic conditions, capital and liquidity considerations and guidelines in place which limit exposures by instrument and currency.

TABLE 27 INTEREST RATE SENSITIVITY POSITION

AS AT OCTOBER 31, 1996 ($ MILLIONS)	CARRYING AMOUNT							
	WITHIN 1 MONTH	1 TO 3 MONTHS	3 TO 6 MONTHS	6 TO 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	NON-INTEREST SENSITIVE	TOTAL
Assets								
Cash resources	$11,781	$ 5,653	$ 2,292	$ 2,438	$ 1,288	$ –	$ 115	$ 23,567
Securities	7,384	5,129	5,088	5,756	13,744	5,375	1,014	43,490
Loans	63,501	13,938	10,756	12,168	33,600	1,828	–	135,791
Customers' liability under acceptances							7,423	7,423
Other	1,812	442	179	224	443	–	4,579	7,679
Total Assets	$84,478	$25,162	$18,315	$ 20,586	$49,075	$7,203	$13,131	$217,950
Liabilities and shareholders' equity								
Deposits	$66,289	$20,219	$16,413	$ 29,553	$28,937	$ 226	$ 180	$161,817
Acceptances							7,423	7,423
Other liabilities	20,190	1,956	924	61	3,805	3,343	5,390	35,669
Subordinated debentures	752	660	–	–	1,255	960	–	3,627
Shareholders' equity	–	150	–	–	700	300	8,264	9,414
Total liabilities and shareholders' equity	$87,231	$22,985	$17,337	$ 29,614	$34,697	$4,829	$21,257	$217,950
On-balance sheet gap	$ (2,753)	$ 2,177	$ 978	$ (9,028)	$14,378	$2,374	$ (8,126)	$ –
Off-balance sheet financial instruments *(1)*	2,314	3,665	(60)	(1,521)	(5,349)	951	–	–
Total interest rate sensitivity gap	$ (439)	$ 5,842	$ 918	$(10,549)	$ 9,029	$3,325	$ (8,126)	$ –
Domestic								
Core gap	$ 1,611	$ 1,273	$ (2,416)	$(12,456)	$ 4,617	$ 203	$ (6,127)	$ (13,295)
Rate risk management:								
On-balance sheet financial instruments	496	591	2,242	2,728	5,703	308	4	12,072
Off-balance sheet financial instruments *(1)*	1,578	1,884	(244)	(614)	(2,062)	681	–	1,223
Total rate risk management	2,074	2,475	1,998	2,114	3,641	989	4	13,295
Domestic gap	3,685	3,748	(418)	(10,342)	8,258	1,192	(6,123)	–
Other								
On-balance sheet gap	(4,860)	313	1,152	700	4,058	1,863	(2,003)	1,223
Off-balance sheet financial instruments *(1)*	736	1,781	184	(907)	(3,287)	270	–	(1,223)
Other gap	(4,124)	2,094	1,336	(207)	771	2,133	(2,003)	–
Total interest rate sensitivity gap	$ (439)	$ 5,842	$ 918	$(10,549)	$ 9,029	$3,325	$ (8,126)	$ –
Total Canadian dollar gap	$ 176	$ 4,068	$ (90)	$ (9,016)	$10,484	$1,741	$ (4,766)	$ 2,597
Total foreign currency gap	(615)	1,774	1,008	(1,533)	(1,455)	1,584	(3,360)	(2,597)
Total interest rate sensitivity gap	$ (439)	$ 5,842	$ 918	$(10,549)	$ 9,029	$3,325	$ (8,126)	$ –
Total Canadian dollar gap – 1995	$ 7,117	$ (2,852)	$ (3,123)	$ (7,571)	$ 7,895	$2,240	$ (6,597)	$ (2,891)
Total foreign currency gap – 1995	(2,207)	3,960	(508)	37	1,535	305	(231)	2,891
Total interest rate sensitivity gap – 1995 *(2)*	$ 4,910	$ 1,108	$ (3,631)	$ (7,534)	$ 9,430	$2,545	$ (6,828)	$ –

	EFFECTIVE INTEREST RATES *(3)*						
	WITHIN 1 MONTH	1 TO 3 MONTHS	3 TO 6 MONTHS	6 TO 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	TOTAL
Assets							
Securities	5.52%	5.36%	5.98%	5.97%	6.87%	4.73%	5.80%
Loans	7.14	7.69	7.28	8.22	8.25	7.59	7.71
Total assets – average yield	6.06	6.86	6.76	7.42	7.79	6.71	6.31
Liabilities and shareholders' equity							
Deposits	3.79	5.31	4.64	3.83	4.49	8.07	4.28
Subordinated debentures	5.52	4.70	–	–	11.11	9.88	10.47
Total liabilities and shareholders' equity – average cost	3.61	5.23	4.53	3.81	4.68	6.69	3.74
Net total	2.45%	1.63%	2.23%	3.61%	3.11%	0.02%	2.57%

(1) Represents the net notional amounts of off-balance sheet instruments, such as forward rate agreements and interest rate swaps.
(2) Amounts for 1995 were reclassified to conform to the 1996 presentation.
(3) Effective interest rates are as at September 30, 1996.

The bank measures interest rate risk from both a current earnings (net interest income) and an economic (market value) perspective. Net interest income risk measures the impact of an immediate and sustained movement in interest rates which results in an adverse impact on net interest income over the next twelve months. Market value risk measures the impact on the market value of both on and off-balance sheet instruments from such a movement in interest rates. Market value is the net present value of all assets less the net present value of all liabilities. Duration analysis, which is employed in calculating market value risk, measures the relative sensitivity of the value of assets, liabilities and off-balance sheet instruments to changing interest rates and indicates how changes in interest rates may affect the bank's economic value.

The primary analytical techniques used by ALM to measure and monitor interest rate risk are gap analysis and simulation modelling.

Gap analysis measures the difference between the amount of assets, liabilities and off-balance sheet instruments that mature or reprice in specified time periods and provides a useful framework for measuring exposure against limits. Gap positions are projected weekly on a centralized basis for the bank's significant books and are actively managed depending on management's outlook on interest rates as well as the product and term preferences of customers.

The net gap position is based upon the known repricing dates of fixed rate assets and liabilities and the assumed repricing dates of others. In calculating the interest rate sensitivity position, the bank is required to make a number of assumptions. Modifications were made during the year in the assumptions which define the repricing profiles of some of the bank's assets and liabilities. A study was performed which reviewed the historical behaviour of all products which had neither a fixed repricing date nor a fixed rate of interest. These products had previously been classified as either floating rate or non-interest rate sensitive. These balances are now reflected in the gap report based on the analysis of core balance behaviour and their expected duration. Floating rate instruments that reprice on a daily basis such as prime rate loans continue to be classified in the first repricing category.

Table 27 on page 64 provides the bank's interest rate sensitivity position as at October 31, 1996 with net gap positions further classified into the two primary elements of the bank's interest rate risk management approach. The first element, the domestic gap, pertains to the interest rate sensitivity position generated by the assets and liabilities in the bank's core domestic businesses and the rate risk management instruments used to manage the resultant core gap. The second element includes all other banking activities. The total interest rate sensitivity gap is also presented by Canadian dollar and total foreign currency components.

The core gap includes all primary domestic banking activities which are denominated in Canadian dollars. The bank's core activities generate portfolios of loans and mortgages. While many residential mortgage customers continue to prefer terms of one to five years, approximately half of the bank's Canadian dollar loan portfolio consists of prime-based loans and fixed-rate loans which reprice in the next six months. These assets are primarily funded with deposits which may reprice over the next twelve months as well. These natural mismatch positions are managed using investment securities and derivatives. Positions were affected during 1996 by customer preferences for shorter term (under one year) mortgages which were particularly attractive due to the low interest rate environment.

The bank's domestic interest rate sensitivity position at October 31, 1996 reflects a view on future interest rate movements relative to the current yield curve. Canadian interest rates are currently at low levels not seen for many years, with an unusually steep yield curve as at October 31, 1996. The bank's interest rate risk position is managed with an intermediate view on interest rates of three to six months and incorporates the expectation of continued low rates over this period.

The remaining "other" interest rate sensitivity gap, which is denominated in both Canadian dollars and other foreign currencies, is comprised primarily of the bank's on and off-balance sheet trading activities, and also includes interest rate sensitivity positions pertaining to the bank's foreign units. The bank's trading activities are primarily managed through the use of VAR methodologies, as previously discussed in this section under "Trading Activities", rather than through the use of gap analysis, as trading positions may change frequently in response to trading initiatives and market conditions.

Table 27 also presents the effective interest rates for on-balance sheet, financial assets and financial liabilities for the bank's significant portfolios. The effective interest rates shown reflect historical rates for fixed rate instruments carried at amortized cost and current market rates for floating rate instruments or instruments carried at fair value. As the bank's interest rate sensitivity position changes regularly in response to market conditions, the rates reflected in this table are indicative of the bank's interest rate exposures at a specific point in time only. The effective interest rates for the bank's non-trading interest rate swaps are shown in Table 29 on page 67.

Given the bank's interest rate sensitivity position at October 31, 1996 and assuming an immediate and sustained parallel increase in interest rates of 1% across all maturities, net income after tax would increase by approximately $36 million over the next twelve months if no hedging were undertaken and all assets and liabilities were to reprice by this 1% amount. Similarly, the market value, in present value terms, would decrease by approximately $162 million after tax. The bank has established limits relating to the maximum amount of net interest income risk and market value risk that it is willing to accept given a fixed change in interest rates.

TABLE 28 DERIVATIVE CONTRACTS – NOTIONAL AMOUNTS AND GROSS POSITIVE REPLACEMENT COST								
AS AT OCTOBER 31 ($ MILLIONS)	1996				1995			
	NOTIONAL AMOUNTS		GROSS POSITIVE REPLACEMENT COST (1)		NOTIONAL AMOUNTS		GROSS POSITIVE REPLACEMENT COST (1)	
	AVERAGE (2)	PERIOD END	AVERAGE (2)	PERIOD END	AVERAGE (2)	PERIOD END	AVERAGE (2)	PERIOD END
Interest Rate Contracts								
Forward rate agreements	$107,859	$ 81,754	$ 78	$ 78	$117,003	$164,154	$ 100	$ 108
Futures contracts	58,780	52,679	–	–	74,124	57,960	–	–
Swap contracts	354,808	355,184	4,980	6,015	292,790	334,235	3,786	4,746
Options	59,862	60,260	175	181	51,066	56,928	265	163
Foreign Exchange contracts								
Spot and forward contracts	480,085	511,288	4,619	5,857	453,174	536,945	6,646	6,491
Futures contracts	141	264	–	–	244	202	–	–
Swap contracts	23,019	24,092	996	1,069	18,017	21,775	1,131	1,292
Options	60,674	70,708	382	395	80,711	69,577	566	543
Other *(3)*	12,696	12,077	83	120	2,856	3,280	53	35
Total			$11,313	$13,715			$12,547	$13,378

(1) Represents the total current replacement value of all outstanding contracts in a gain position, without factoring in the impact of permissible netting.
(2) Average amounts are calculated based on monthly balances.
(3) Comprised of precious metal, commodity and equity-linked contracts.

Simulation modelling, which complements gap analysis by enabling the bank to analyse interest rate risk in a dynamic context, incorporates assumptions which are updated regularly to reflect changing conditions about pricing strategies, growth, volume and mix of new business, changes in the shape of the yield curve, interest rates and other factors such as the impact of embedded option products. Numerous economic and rate scenarios are used to evaluate the impact on net interest income and market value of repricing mismatch risk, basis and option risks. The results of the model assist ALM in determining the potential hedging and investment strategies to be followed in order to maximize risk/return tradeoffs.

All of the measurements of interest rate risk described in this section are based upon the bank's interest rate exposures at a specific point in time. The exposures change continuously as a result of the bank's day to day business activities and its risk management initiatives.

OFF-BALANCE SHEET ACTIVITIES

The bank uses various types of off-balance sheet instruments in the ordinary course of business. These off-balance sheet activities can be broadly divided into two categories: credit instruments and derivatives.

CREDIT INSTRUMENTS

Credit instruments, which include commitments to extend credit, standby letters of credit, financial and non-financial guarantees and commercial letters of credit, are entered into primarily to meet the needs of customers. These arrangements are discussed in more detail in Note 16 to the financial statements on page 97.

DERIVATIVES

Derivatives are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity or commodity instrument. Derivatives are either negotiated over-the-counter (OTC) contracts or standardized contracts traded on regulated exchanges. OTC contracts generally include swaps, foreign exchange forwards, options and forward rate agreements, while exchange-traded derivatives are generally limited to futures and options. The bank uses these instruments for sales and trading and for asset liability management purposes.

Table 28 shows the notional amount and the gross positive replacement cost of derivative contracts at October 31, 1996 and 1995 as well as the average amounts outstanding during the fiscal year. Notional amounts do not represent the credit or market risk associated with these contracts nor do they reflect the extent to which positions offset one another. Notional amounts serve as a point of reference for calculating payments and are a common measure of business volume. The notional amounts of derivatives are not recorded on the balance sheet.

Derivatives – volumes and trends

Derivative volumes peaked last year end due to increased Canadian market activity in the latter part of 1995 leading up to the Quebec referendum on October 30, 1995. In 1996, the derivatives markets grew increasingly competitive, particularly in high volume, low spread derivatives such as forward rate agreements. As a result, the bank shifted its focus during the year towards lower volume, higher spread interest rate derivatives including interest rate swaps and options. The reduced interest rate convergence amongst the major traded currencies also resulted in reduced foreign exchange hedging activities in the latter part of 1996 by the bank's corporate clients. The bank's volume of "other" derivatives, which are comprised primarily of equity-linked instruments, increased during the year as the bank continues to expand its client base and enhance the scope of the derivative products that we currently offer. The bank's overall exposure to this

TABLE 29 INTEREST RATE SWAPS USED FOR PURPOSES OTHER THAN TRADING								
AS OF OCTOBER 31, 1996 ($ MILLIONS)	MATURITY							
	0-1 YEAR	1-2 YEARS	2-3 YEARS	3-4 YEARS	4-5 YEARS	5-10 YEARS	OVER 10 YEARS	TOTAL
Receive fixed swaps *(1)*								
Canadian $:								
Notional amount	$ 390	$ 938	$ 775	$ 610	$ 212	$ 590	$ –	$ 3,515
Weighted average:								
– receive rate	6.27%	8.56%	9.75%	7.31%	8.73%	8.49%	–	8.35%
– pay rate	3.95%	3.81%	3.52%	3.82%	3.57%	3.87%	–	3.76%
US $:								
Notional amount	$ 4,718	$ 553	$ 24	$ 37	$ 103	$ 178	$ –	$ 5,613
Weighted average:								
– receive rate	5.68%	6.22%	6.49%	8.19%	7.36%	7.16%	–	5.83%
– pay rate	5.39%	5.03%	5.17%	5.52%	5.41%	5.41%	–	5.35%
Other currencies: *(2) (3)*								
Notional amount	$ 804	$ 177	$ 4	$ 196	$ –	$ 1	$ –	$ 1,182
Pay fixed swaps *(1)*								
Canadian $:								
Notional amount	$ 1,739	$4,079	$ 727	$ 121	$ 255	$ 470	$30	$ 7,421
Weighted average:								
– receive rate	3.77%	4.04%	3.77%	3.93%	4.15%	3.55%	3.60%	3.92%
– pay rate	7.89%	7.85%	8.24%	7.53%	7.84%	9.69%	7.86%	8.01%
US $:								
Notional amount	$ 4,205	$ 514	$ 226	$ 57	$ 38	$ 29	$ –	$ 5,069
Weighted average:								
– receive rate	5.56%	5.60%	5.83%	5.56%	5.70%	5.59%	–	5.58%
– pay rate	5.77%	6.39%	5.67%	6.75%	9.56%	7.70%	–	5.88%
Other currencies: *(2) (3)*								
Notional amount	$ 751	$ 375	$ 146	$ 47	$ 50	$ 123	$ –	$ 1,492
Basis swaps *(1) (4)*								
Notional amount	$ 2,152	$ 13	$ –	$ 51	$ –	$ –	$ –	$ 2,216
Weighted average:								
– receive rate	5.66%	5.12%	–	5.69%	–	–	–	5.66%
– pay rate	5.62%	4.77%	–	5.70%	–	–	–	5.62%
Total notional amounts	$14,759	$6,649	$1,902	$1,119	$ 658	$1,391	$30	$26,508

Notes:

(1) Fixed rates represent the weighted average interest rates which the bank is contractually committed to pay/receive until the swap matures. The floating rates represent all those in effect at October 31, 1996.

(2) Includes contracts primarily denominated in Pound Sterling and Deutschmark.

(3) Weighted average rates for the other currencies are not included in this table, as a weighted average presentation is not meaningful.

(4) Basis swaps are interest rate swaps in which both amounts paid and received are based on floating rates. Basis swaps outstanding are all denominated in US dollars.

segment of the derivative market is expected to remain moderate in relation to the bank's other major derivative activities.

Derivatives held or issued for trading purposes

Most of the bank's derivative transactions are a result of its sales and other trading activities. Sales activities involve the structuring and marketing of derivative products to customers at competitive prices to enable them to transfer, modify or reduce current or expected risks. Other trading activities include market making, positioning and arbitrage activities. The bank also engages in derivative transactions to hedge trading positions.

The bank does not deal, to any significant extent, in leveraged derivative transactions. A leveraged derivative transaction is a specific type of derivative containing a formula or multiplier which, for any given change in market prices, could cause the change in the transaction's fair value to be significantly different from the change in fair value that would occur for a similar derivative without the formula or multiplier. The credit exposure of such derivatives was not material at October 31, 1996.

Derivatives used in trading activities are marked to market with the resultant gains and losses included in trading revenues in Other Income. Trading derivatives

are recorded on the balance sheet at their estimated market values with unrealized gains and losses netted and reported in Other Assets or Other Liabilities.

Effective November 1, 1996, Canadian accounting standards will require unrealized gains associated with trading derivatives to be reported as assets and unrealized losses to be reported as liabilities. Unrealized gains and losses associated with trading derivatives may only be netted if the transactions are governed by legally enforceable master netting agreements and the bank intends to settle with the counterparty on a net basis or to realize the asset and settle the liability simultaneously. If this accounting standard had already been implemented, the bank's assets and liabilities would have increased by approximately $13.5 billion and $12.8 billion as of October 31, 1996 and 1995 respectively. Implementation of the new accounting standard will have no impact on the permissible netting allowed within the existing regulatory capital framework, nor will it impact Tier 1 and Total capital ratios.

Accounting standards in the United States permit the offsetting of unrealized gains and losses where there is reasonable assurance that the right of setoff contained in the master netting agreement governing the derivative contracts would be upheld after default. Under the U.S. standard, the bank's assets and liabilities would have been increased by approximately $9.2 billion and $9.6 billion as of October 31, 1996 and 1995 respectively.

The fair value of the bank's trading derivatives is shown in Note 17 on page 99.

Derivatives held or issued for other than trading purposes

The bank uses derivatives in connection with its own asset liability management, which includes hedging and investment activities. Common hedging activities include the use of interest rate swaps to adjust the bank's exposure to interest rate risk and the use of interest rate options to hedge prepayment and other options embedded in consumer products. Written options are used in the form of a package derivative (collars) in the bank's asset liability management activities. Interest rate contracts are also commonly used to hedge anticipated transactions, such as planned deposit campaigns. As at October 31, 1996, the level of interest rate derivatives in place to hedge anticipated transactions was not material. In addition, foreign exchange forward contracts are used to hedge the bank's net investment in foreign operations. These contracts hedge the impact of foreign exchange rate changes on the bank's net investment in foreign operations. Investment activities include the use of derivatives as a substitute for investments in on-balance sheet securities. These activities are used to manage the level of interest rate risk and aid in the bank's liquidity management activities.

Derivatives held for other than trading purposes represent 3.3% and 2.7% of total notional amounts of derivatives outstanding as at October 31, 1996 and 1995 respectively. The fair value of derivatives held for other than trading purposes is shown in Note 17 on page 99.

Derivatives held for other than trading purposes are accounted for in a manner consistent with the accounting treatment afforded to the related hedged assets or liabilities, generally on an accrual basis. Revenues and expenses related to such derivatives are included as adjustments to interest income or interest expense. Deferred gains or losses relating to non-trading derivative contracts are amortized as yield adjustments in interest income or interest expense. The amount of the bank's deferred gains and losses associated with non-trading derivatives were not material at October 31, 1996.

Table 29 on page 67 summarizes the expected maturities and weighted average interest rates to be paid and received on all interest rate swaps utilized in the bank's non-trading activities at October 31, 1996. Although the bank believes the results of its non-trading activities should be evaluated on an integrated basis, taking into consideration all on-balance sheet and related derivative instruments, this interest rate swap maturity table provides an indication of the bank's interest rate swap activity. The table was prepared under the assumption that variable interest rates remain constant at October 31, 1996 levels, and accordingly, the actual interest rates to be received or paid will be different to the extent that such variable rates fluctuate from October 31, 1996 levels. The variable rates of substantially all Canadian dollar swaps are based on the one or three month Canadian Banker's Acceptance rate. Variable rates relating to foreign currency swaps are generally based on the one or three month London Interbank Offer Rate.

Not included in Table 29 on page 67 are other derivatives used for other than trading purposes, such as foreign exchange contracts, interest rate futures, and forward rate agreements, with a total notional amount of $12.4 billion at October 31, 1996. The contractual maturities of these derivatives are primarily less than one year. Table 31 on page 69 presents the contractual maturities of the banks trading and other than trading derivatives by major risk type.

Credit risk related to derivatives

Credit risk from a derivative transaction arises from the potential for the counterparty to default on its contractual obligations at a time when the transaction has a positive market value to the bank. That market value is also referred to as "replacement cost" or "current exposure", since it represents the cost to the bank of replacing the contract at current market rates at the time such a default occurs. Over the life of a transaction

TABLE 30 GROSS POSITIVE REPLACEMENT COST OF DERIVATIVES BY RISK RATING AND BY COUNTERPARTY TYPE

AS AT OCTOBER 31, 1996 ($ MILLIONS)	RISK RATING (1)					COUNTERPARTY TYPE			
	AAA,AA	A	BBB	BB OR LOWER	TOTAL	BANKS	OECD GOVERNMENTS	OTHER	TOTAL
Gross positive replacement cost *(2)*	$5,470	$5,733	$1,962	$550	$13,715	$9,970	$798	$2,947	$13,715
Impact of netting agreements	(2,015)	(1,743)	(648)	(72)	(4,478)	(3,781)	–	(697)	(4,478)
Replacement cost (after netting agreements)	$3,455	$3,990	$1,314	$478	$9,237	$6,189	$798	$2,250	$9,237

(1) The bank's internal credit risk ratings for major counterparty types approximate those of public rating agencies. Ratings of AAA, AA, A and BBB represent investment grade ratings and ratings of BB and lower represent non-investment grade ratings.
(2) Represents the total current replacement value of all outstanding contracts in a gain position, without factoring in the impact of permissible netting.

this market value would normally fluctuate, as the value of the underlying instrument on which the derivative is valued itself changes. Therefore, at any point in time, the bank's credit exposure (also referred to as the "credit equivalent amount") to a counterparty from a derivative transaction is composed of the current market value plus an estimate of the potential change in that market value over the remaining period of time until the transaction would normally terminate. The estimation of this potential change is in turn primarily related to (and measured by) the expected volatility in the variable (whether interest rate, foreign exchange rate, equity price or commodity price) which determines the value of the instrument underlying the derivative.

Netting is a technique used by the bank in its agreements involving derivatives, which seeks to reduce its credit exposure on derivative transactions. The main form of netting provision used by the bank is netting by termination and close-out ("close-out netting"). Under such a provision, if the counterparty defaults, the bank has the right to terminate all transactions at their current market values and then to sum all positive and negative current market values together to arrive at a single ("net") amount owed either to or from the counterparty. Another form of netting provision used by the bank involves settlement netting, which seeks to reduce the credit risk involved in settling foreign currency amounts. Such a provision would net all payments and receipts in the same currency and due on the same day between the bank and a counterparty. As a result of that netting, a single amount in each currency would be paid, either by the bank or by the counterparty. The provisions under which these close-out and settlement netting arrangements are accomplished are in most cases contained in master netting agreements, and usually either the International Swaps and Derivatives Association ("ISDA") or the International Foreign Exchange Master Agreement ("IFEMA") form of agreement is used. Although the bank actively encourages counterparties to enter into master netting agreements, the bank's credit exposure arising out of a derivative transaction will only be reduced to account for the effects of netting if the enforceability of that netting is supported by appropriate legal analysis.

Bank capital adequacy guidelines issued by the Superintendent of Financial Institutions Canada contain standards for measuring capital required to support the credit exposure arising from derivatives. These standards use a formula-based assessment of credit exposure and, effective July 31, 1996, allowed Canadian banks to recognize the risk-reducing benefits of legally enforceable master netting agreements. For transactions governed by a legally enforceable master netting agreement, the standards permit a reduction in both the current and the potential components of the credit equivalent amount to be included in risk weighted assets for BIS capital purposes.

TABLE 31 MATURITIES OF TRADING AND OTHER-THAN-TRADING DERIVATIVES (1)

AS AT OCTOBER 31, 1996	UNDER 3 MONTHS	3 – 6 MONTHS	6 – 12 MONTHS	1 – 3 YEARS	3 – 5 YEARS	OVER 5 YEARS	TOTAL 1996
Trading							
Interest rate contracts	22.8%	14.9%	16.5%	28.2%	11.3%	6.3%	100.0%
Foreign exchange contracts	59.3	20.5	14.6	3.7	1.1	0.8	100.0
Commodity and equity contracts	78.6	7.5	7.6	3.3	1.7	1.3	100.0
Total trading	42.7	17.8	15.6	15.0	5.8	3.1	100.0
Other-than-trading							
Interest rate contracts	19.5	12.9	24.1	32.5	6.0	5.0	100.0
Foreign exchange contracts	29.9	33.4	11.1	17.0	3.6	5.0	100.0
Total other-than-trading	21.9	17.6	21.1	29.0	5.4	5.0	100.0

(1) Based on notional amounts. This maturity profile includes future contracts and options written.

The impact of close-out netting and settlement netting arrangements on total current credit exposure is shown in Note 16 to the financial statements on pages 96-98. The bank has experienced growth in its close-out netting benefits over the past year, as a result of efforts made to increase the number of agreements with our counterparties which qualify for a reduction in BIS capital requirements and to expand the legal research supporting those reductions. The settlement netting benefits achieved as at October 31, 1996 reflect the cash flow obligations in place between the bank and its counterparties at year-end. Benefits achieved under this type of netting arrangement will fluctuate as contractual payments and receipts are settled in the ordinary course of business.

To further manage derivative related counterparty credit exposure, the bank enters into agreements containing mark-to-market cap provisions with some counterparties. Under such provisions, the bank has the right to request that the counterparty pay down or collateralize the current market value of its derivatives position with the bank. The use of collateral does not currently represent a significant credit mitigation technique for the bank in managing derivative related credit risk. Therefore, the amount of collateral held at October 31, 1996 is not material.

The credit exposure for derivatives is subject to the same credit approval, limit and monitoring standards that the bank uses for managing other transactions that create credit exposure. Credit utilization for all products is compared with established limits on a daily basis and is subject to a standard exception reporting process.

A portion of the bank's derivative activity is exchange-traded. Exchange-traded contracts are subject to policies set by the relevant exchange, including margin requirements. Credit risk for exchange-traded contracts includes the margin pledged by the bank and an estimate of the daily variation margin due from the clearing broker.

The bank manages its derivative-related credit risks by dealing with counterparties evaluated as creditworthy, and by managing the size, diversification and maturity structure of the portfolio. In evaluating creditworthiness, the bank utilizes the same internal credit rating system established for all on-balance sheet credit exposures. In most cases, these internal ratings approximate the external risk ratings of public rating agencies. Table 30 on page 69 shows the current replacement cost, before and after close-out netting, of the bank's derivatives by risk rating and by counterparty type. At October 31, 1996, 95% of the net current replacement cost was with investment grade counterparties. The majority of the bank's derivative transactions are with other banks. At October 31, 1996, 67% of the net current replacement cost was outstanding with other banks, compared to 70% a year ago. During 1996 and 1995, neither the bank's actual credit losses arising from derivative transactions nor the level of impaired derivative contracts were significant.

The maturity profile of the bank's derivative instruments is presented in Table 31 on page 69. The majority of the trading and non-trading derivatives, as measured by notional amounts, have maturities of less than one year. Interest rate contracts, which consist primarily of interest rate swaps, are relatively short term with approximately 82% of the trading and 89% of the non-trading contracts maturing within three years. Approximately 80% of the trading and 63% of the non-trading foreign exchange contracts, which consist primarily of foreign exchange forward contracts, mature within six months.

Market risk related to derivatives

Derivatives receive increased market risk management attention due to their unique features and complexity. Measurement and management of the bank's exposure to market risk is only meaningful when the market risks of derivatives and on-balance sheet financial instruments, such as securities, loans and deposits, are aggregated and the resulting net exposures to interest rate, foreign exchange and other market risks are identified. The market risks arising from derivatives are included in the market risk management processes and framework utilized for all trading instruments as described in the Risk Management discussion on page 51.

LIQUIDITY RISK MANAGEMENT

Liquidity management is designed to ensure that the bank has the ability to generate or obtain sufficient cash or its equivalents in a timely manner at a reasonable price to meet its commitments as they fall due. Effective liquidity management is critical in maintaining market confidence, protecting the bank's capital and allowing for profitable business expansion.

Sound liquidity management requires the nature and diversification of funding sources be continually assessed and enhanced. The bank's funding environment differs significantly in its domestic and international markets. Such differences relate to the bank's client base characteristics, the nature of the deposit market, the bank's market share and regulatory environments.

Table 32 on page 71 provides details of the bank's deposits. The bank's Canadian dollar deposits consist primarily of deposits from Canadian consumers, which are raised through the bank's extensive network, and represent a widely diversified and stable source of funding. The bank funds its foreign currency activities mainly by taking deposits from various sources including corporations, large foreign banks and governments. Since wholesale funding accounts for a significant portion of the international funding base, the bank manages its liquidity with a view to increasing the diversification by the type and country of origin of depositors and through various locations and legal entities. The maturity of the bank's deposits is extended where appropriate and sufficient cash positions are maintained in the foreign currencies in which the bank conducts business.

The bank's liquidity is enhanced by its access to global money and capital markets and by maintaining access to additional funds from existing counterparties. Such activities require the continual development and strengthening of relationships with a diverse network of dealers and counterparties. Through these relationships and its active trading presence worldwide, the bank also monitors market developments in order to take anticipatory actions if needed.

The bank's liquidity management program also involves measurement, control, and scenario testing of funding requirements. Funding requirements are determined by examining future cash flows based on the expected maturities of assets, liabilities and off-balance sheet instruments. Limits regarding the maximum net outflow of funds are in place for specified time periods, in particular for key short term time horizons.

A full analysis of funding requirements also includes laying out "what if" scenarios where the behaviour of cash flows for assets and liabilities is assumed to vary under different conditions. The assumptions incorporated in these scenario tests are updated to reflect changing conditions. Results of the analysis are used in refining limits and are provided to senior management to enable them to monitor changes in liquidity and react appropriately to market developments on a timely basis.

A sound framework for managing liquidity includes maintaining a sufficient level of liquid assets. As shown in Table 33 below, the bank's liquid assets totalled $67.9 billion or 31% of total assets at October 31, 1996, compared to $53.7 billion or 29% of total assets at year-end 1995. Canadian dollar liquid assets are primarily securities. The bank places much of its foreign currency liquid assets with other prime interna-

TABLE 32 DEPOSITS

AS AT OCTOBER 31 ($ MILLIONS)	1996	1995	1994	1993	1992
Canadian dollar deposits					
Consumers	$ 80,274	$ 79,912	$ 75,910	$ 75,965	$ 59,891
Businesses and governments	27,375	23,260	21,610	19,961	18,968
Banks	1,924	2,274	1,476	1,710	1,157
	109,573	105,446	98,996	97,636	80,016
Foreign currency deposits					
Consumers	10,500	10,017	9,304	8,731	7,757
Businesses and governments	20,424	16,640	14,812	13,820	11,277
Banks	21,320	11,388	12,703	10,212	13,172
	52,244	38,045	36,819	32,763	32,206
Total deposits					
Consumers	90,774	89,929	85,214	84,696	67,648
Businesses and governments	47,799	39,900	36,422	33,781	30,245
Banks	23,244	13,662	14,179	11,922	14,329
	$161,817	$143,491	$135,815	$130,399	$112,222
Consumer deposits as a percentage of total deposits	56%	63%	63%	65%	60%

TABLE 33 LIQUIDITY

AS AT OCTOBER 31 ($ MILLIONS)	1996	1995	1994	1993	1992
Canadian dollar liquid assets					
Cash and deposits with Bank of Canada	$ 850	$ 1,030	$ 1,023	$ 1,198	$ 1,443
Deposits with other banks	2,300	2,228	2,657	822	1,234
Securities *(1)*	30,817	28,494	23,447	19,663	12,193
	33,967	31,752	27,127	21,683	14,870
Foreign currency liquid assets					
Cash and deposits with Bank of Canada	73	87	164	175	73
Deposits with other banks	20,344	14,365	12,605	8,679	8,188
Securities *(1)*	13,520	7,492	5,822	4,744	2,905
	33,937	21,944	18,591	13,598	11,166
Total liquid assets					
Cash and deposits with Bank of Canada	923	1,117	1,187	1,373	1,516
Deposits with other banks	22,644	16,593	15,262	9,501	9,422
Securities *(1)*	44,337	35,986	29,269	24,407	15,098
	$67,904	$53,696	$45,718	$35,281	$26,036
Liquid assets as a percentage of total assets	31%	29%	26%	21%	19%

(1) Securities include investment and trading account securities and call loans, but exclude loan substitute securities.

tional banks. Foreign currency deposits with other banks, including certificates of deposits purchased, were $20.3 billion or 31% of total foreign currency assets at October 31, 1996.

Limits are in place which specify the minimum level of liquid assets to be held at all times for liquidity management purposes. These "liquidity" assets are specified, unencumbered, high quality securities for which there is a broad and active secondary market such that they can be sold to a wide range of counterparties without incurring a substantial discount. Thus, they can be relied upon to provide a dependable source of cash to fund both on and off-balance sheet instrument requirements.

The bank's liquidity management framework also includes a liquidity contingency plan which would be activated to ensure funding requirements can be met in the case of general market disruption or adverse economic conditions. The plan sets out a series of controlled processes to promote deliberate behaviour in anticipation of adverse liquidity circumstances. The contingency plan has been approved by the Board of Directors.

Liquidity levels maintained by the bank vary in response to changes in economic, political, regulatory and operating conditions. At October 31, 1996, the bank is in compliance with all approved levels of liquidity. In managing its liquidity, the bank also takes into account various legal limitations and tax implications of transferring funds between business units. Canadian federal and certain provincial statutes applicable to the bank's federally chartered loan and trust company subsidiaries apply capital adequacy, liquidity and investment standards to their operations. These restrictions, and legal or practical restrictions on the ability of subsidiaries to transfer funds to the bank do not prevent the bank from meeting its obligations.

OPERATING RISK MANAGEMENT

Operating risk is the potential for loss caused by the breakdown in information, processing, settlement and legal compliance systems. It can also result from systems or procedural failures, human error, the impact of natural disasters and criminal activity.

While operating risk can never be fully eliminated, the bank endeavours to minimize it by ensuring that the appropriate infrastructure, controls, systems and people are in place throughout its business, functional and geographic groups. Key policies and procedures employed in managing operating risk involve segregation of duties, delegation of authorities, transaction processing, risk monitoring and financial and managerial reporting.

The bank also possesses extensive back-up capabilities and engages in business resumption planning to ensure ongoing service delivery under adverse conditions.

During 1996, a working group was established to review the bank's measures and methodologies for operating risk following the benchmarking of North American best practices in this and other forms of risk. Enhancements based on the findings of this review are expected to be introduced in 1997.

To manage operating risk relating to the bank's derivatives activities, a number of specific measures are in place. For example:

- Front and back office activities are segregated to ensure that traders have no access to the transaction processing, confirmation and payment functions.
- Derivatives held for trading purposes are valued daily for profitability reporting and risk management purposes. The bank's Trading Risk Management group verifies and approves the reasonableness of valuation models, while daily pricing is maintained and verified by independent operations staff.
- Policies and documentation standards are in place to monitor legal risk. Also, the bank only recognizes the use of master netting agreements where legal opinions, from both internal and external counsel support such recognition.
- Full off-site processing and trading systems backup facilities ensure the reliability of the complex computer systems on which trading personnel depend.

CAPITAL MANAGEMENT

Capital funds

Effective capital management, an important objective at Royal Bank Financial Group, involves balancing the need for strong capital to finance future growth and maintain credit ratings with the desire to provide solid returns to shareholders. In managing this balance, the bank considers expected asset growth, future investment plans and the costs and terms of existing issues.

Internally generated capital was up 20%, excluding accounting change

As shown on the balance sheet on page 78, total capital funds were $13.0 billion at October 31, 1996, comprising $7.7 billion of common shareholders' equity ($2.9 billion of common stock and $4.8 billion of retained earnings), $1.7 billion of preferred share capital and $3.6 billion of subordinated debentures.

Table 34 below shows that total capital was up $475 million or 4% from a year ago, largely due to strong earnings growth, adjusted for the impact of a number of measures.

During the fourth quarter, the bank repurchased 3.6 million common shares for $170 million, as part of a program, announced on September 12, 1996, to repurchase up to 10% of its public float before the end of September 1997.

The $170 million repurchase served to reduce common stock by $34 million (based on an average cost per common share of $9.26) and retained earnings by $136 million.

The 3.6 million common shares repurchased will more than offset 1.27 million common shares issued on November 1, 1996 in connection with the acquisition of Richardson Greenshields and 480,000 common shares issued in connection with the formation of the RBC Dominion Securities Group, as mentioned in Note 19 to the financial statements on page 101.

In response to strong earnings and higher capital ratios, the quarterly common share dividend was increased by 3 cents per share or 10%, to 34 cents, commencing the second quarter of 1996. This increase, when combined with the full year impact of a 2 cent increase in the quarterly dividend (effective the fourth quarter of 1995), resulted in a 15 cent or 13% growth in common share dividends in 1996, to $1.33.

Accounting for most of the $238 million decline in preferred stock was the redemption, on August 1, 1996, of the bank's Floating Rate First Preferred Shares Series C and D. This brought total preferred stock redeemed since July, 1995 to $509 million, leading to a reduction of $20 million or 12% in preferred share dividends this year, as shown in Note 11 on page 93. (In July 1995, the bank had redeemed its $1.45 First Preferred Shares Series B for $272 million.) The $20 million reduction in preferred dividends contributed 7 cents to earnings per share this year.

On November 25, 1996, the bank issued US $300 million of debentures maturing October 24, 2011, as mentioned in Note 10 to the financial statements on page 90.

Regulatory capital

The primary measures of regulatory capital strength for Canadian banks are the risk-adjusted capital ratios developed pursuant to guidelines issued by the Superintendent of Financial Institutions Canada based on standards

TABLE 34 CAPITAL FORMATION

FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS)	1996	1995	1994	1993	1992
Internally generated capital					
Net income	$1,430	$1,262	$1,169	$300	$ 107
Cumulative effect of initial adoption of Impaired Loans accounting standard	(75)	–	–	–	–
Amounts credited (charged) to retained earnings	(3)	(8)	4	(12)	4
Capital from operations	1,352	1,254	1,173	288	111
Dividends	(562)	(535)	(532)	(518)	(484)
	790	719	641	(230)	(373)
External financing					
Subordinated debentures	93	57	35	315	51
Preferred stock	(238)	(276)	18	654	(67)
Common stock	(34)	–	–	–	184
Amounts charged to retained earnings	(136)	–	–	–	–
	(315)	(219)	53	969	168
Total increase (decrease) in capital	$ 475	$ 500	$ 694	$739	$(205)

issued by the Bank for International Settlements (BIS) in 1988 and subsequently updated.

Capital for regulatory purposes differs from capital recorded on the balance sheet in that goodwill and investments in associated companies are excluded from regulatory capital, while non-controlling interests in subsidiaries are included in regulatory capital. As well, subordinated debentures for regulatory capital are amortized by 20% per year in the final five years to maturity.

Consistent with the above noted guidelines, total regulatory capital is allocated into two tiers, with the first tier (Tier 1 capital) comprising the more permanent form of capital. The components of Tier 1 and Tier 2 capital are shown in Table 35 below.

Since the end of fiscal 1992, Canadian banks have been required to maintain a minimum Total capital ratio of 8%, and a minimum Tier 1 capital ratio of 4%. At October 31, 1996, the bank's Tier 1 and Total capital ratios were 7.0% and 9.4%, respectively, well above the minimum regulatory requirements.

Regulatory capital ratios are calculated by dividing Tier 1 and Total capital by "risk-adjusted assets".

Risk-adjusted assets are determined by applying risk weights to balance sheet assets and off-balance sheet financial instruments according to the relative credit risk of the counterparty. The distribution of these risk weights is provided in Table 36 on page 75.

In the case of off-balance sheet instruments, credit equivalent amounts must be calculated before risk-adjusted balances can be determined. For credit instruments, these amounts are determined using "credit conversion factors" which depend upon the nature of the instrument and the original term to maturity. The calculation of credit-equivalent amounts for derivatives is described in the discussion of derivatives included in the Off-Balance Sheet Activities section on page 69.

Bank regulators in the United States, unlike in Canada, allow a portion of general provisions for credit losses, including those related to country risk, to be included in Tier 2 capital, while cumulative permanent preferred shares are classified as Tier 1, not Tier 2, capital. A deduction from Tier 1 capital is required for the amount of deferred tax assets that will not be realized within 1 year. The bank has calculated its capital ratios in accordance with U.S. requirements as if it were able to file consolidated tax returns, as is allowed in the United States. Accordingly, the deferred tax amount deducted from Tier 1 capital was $374 million.

TABLE 35 CAPITAL RATIOS

AS AT OCTOBER 31 ($ MILLIONS)	1996	1995	1994	1993	1992
Tier 1 capital					
Common shareholders' equity	$ 7,662	$ 7,042	$ 6,323	$ 5,682	$ 5,912
Non-cumulative preferred shares	1,602	1,605	1,609	1,594	948
Non-controlling interest in subsidiaries	108	107	93	81	75
Less: goodwill	(335)	(333)	(365)	(447)	(195)
	9,037	8,421	7,660	6,910	6,740
Tier 2 capital					
Permanent preferred shares and subordinated debentures	551	788	1,063	1,050	1,018
Non-permanent subordinated debentures (1)	2,495	2,708	2,806	2,980	2,728
Non-controlling interest in subsidiaries	–	–	–	5	–
Less: substantial investments and investment in associated corporations	(14)	(4)	(4)	(4)	(3)
	3,032	3,492	3,865	4,031	3,743
Total capital	$12,069	$11,913	$11,525	$10,941	$10,483
Risk-adjusted assets					
On-balance sheet assets	$102,856	$ 92,129	$ 93,215	$ 94,452	$ 91,927
Off-balance sheet financial instruments	25,307	29,221	26,943	22,591	22,371
Total risk-adjusted assets	$128,163	$121,350	$120,158	$117,043	$114,298
Tier 1 capital to risk-adjusted assets	7.0%	6.9%	6.4%	5.9%	5.9%
Tier 2 capital to risk-adjusted assets	2.4%	2.9%	3.2%	3.4%	3.3%
Total capital to risk-adjusted assets	9.4%	9.8%	9.6%	9.3%	9.2%
Common shareholders' equity to risk-adjusted assets	6.0%	5.8%	5.3%	4.9%	5.2%

(1) Subordinated debentures which are within five years of maturity are subject to straight-line amortization to zero during their remaining term and, accordingly, are included above at their amortized value.

TABLE 36 | RISK-ADJUSTED ASSETS

AS AT OCTOBER 31 ($ MILLIONS)

On-balance sheet assets	Balance sheet amount	Principal risk weight	Risk-adjusted balance 1996	Risk-adjusted balance 1995
Cash resources	$ 23,567	20%	$ 4,511	$ 3,272
Securities				
Issued or guaranteed by Canadian or other OECD governments	30,860	0%	35	191
Other	12,630	100%	7,768	5,807
Residential mortgages				
Insured	15,704	0%	91	77
Conventional	32,352	50%	16,961	16,448
Other loans and acceptances				
Issued or guaranteed by Canadian or other OECD governments	9,471	0%	486	307
Reverse repurchase agreements	11,446	0%	–	209
Other	74,241	100%	68,425	61,420
Other assets	7,679	100%	4,579	4,398
	$217,950		$102,856	$92,129

Off-balance sheet financial instruments	Contract amount	Credit-conversion factor	Credit-equivalent amount	Principal risk weight	Risk-adjusted balance 1996	Risk-adjusted balance 1995
Credit instruments						
Guarantees and standby letters of credit:						
Financial	$ 6,954	100%	$ 6,954	100%	$ 6,215	$ 5,469
Non-financial	2,050	50%	1,025	100%	1,015	925
Securities lending	15,457	100%	15,457	0%	230	208
Documentary and commercial letters of credit	879	20%	176	100%	88	161
Commitments to extend credit: *(1)*						
Original term to maturity of one year or less	62,059	0%	–	0%	–	–
Original term to maturity of more than one year	28,863	50%	14,432	100%	13,492	16,880
Note issuance/revolving underwriting facilities	140	50%	70	100%	70	102
Total credit instruments	$116,402		$38,114		$21,110	$23,745

Derivatives *(2)*	Notional amount	Gross replacement cost (3)	Net replacement cost (4)	Credit-equivalent amount (5)	Principal risk weight	Risk-adjusted balance 1996	Risk-adjusted balance 1995
Interest rate contracts:							
Forward rate agreements	$ 81,754	$ 78	$ 78	$ 86	20%	$ 20	$ 31
Swaps	355,184	6,015	3,683	4,786	20%	1,237	1,707
Options purchased	22,747	181	137	217	20%	58	72
		6,274	3,898	5,089		1,315	1,810
Foreign exchange contracts:							
Spot and forward	511,288	5,857	3,828	7,854	20%	2,067	2,881
Swaps	24,092	1,069	1,029	1,847	20%	392	510
Options purchased	32,873	395	362	730	20%	208	241
		7,321	5,219	10,431		2,667	3,632
Other	9,991	120	120	490	50%	215	34
Total derivatives		$13,715	$9,237	$16,010		$ 4,197	$ 5,476
Total off balance-sheet financial instruments				$54,124		$ 25,307	$ 29,221
Total risk-adjusted assets						$128,163	$121,350

(1) Commitments to extend credit are as at September 30.

(2) Futures and some purchased options are traded on exchanges and are subject to daily margin requirements. Therefore, such instruments are excluded from the calculation of risk-adjusted assets as they are deemed to have no additional credit risk.

(3) Represents the total current replacement value of all outstanding contracts in a gain position, without factoring in the impact of permissible netting.

(4) Represents the total net positive replacement value of all contracts after permissible netting. Where contracts are subject to netting among different types of derivative instruments, the net replacement cost has been allocated among those derivatives which have a gross positive replacement cost.

(5) Credit-equivalent amounts for derivatives consist of (i) the total net positive replacement value of all outstanding contracts, after permissible netting, and (ii) an amount for potential future credit exposure, calculated in accordance with the capital adequacy requirements of the Superintendent of Financial Institutions Canada.

Using the U.S. definition, the bank's Tier 1 and Total capital ratios would be 6.8% and 9.5%, respectively, at year-end 1996, compared to 7.2% and 10.3% in 1995.

Changes in regulatory capital

As shown in Table 35 on page 74, Tier 1 capital increased by $616 million in 1996 reflecting higher common shareholders' equity, as strong internally generated capital was partially offset by the repurchase of $170 million of common shares.

Tier 2 capital decreased by $460 million, primarily due to the redemption, on August 1, 1996, of the bank's First Preferred Shares Series C and Series D for $100 and $137 million, respectively. Also contributing to the reduction in Tier 2 capital was the increased amortization of subordinated debentures maturing over the next five years. Partially offsetting these factors was the issuance of $100 million of 8.2% subordinated debentures due April 26, 2011.

Risk-adjusted on-balance sheet assets increased by $10.7 billion or 12% in 1996, which is lower than the 19% increase in total assets since a high proportion of the asset growth this year was in low-risk assets, such as cash resources, securities and residential mortgages, which have a low risk-weighting.

Risk-adjusted balances related to off-balance sheet financial instruments were down $3.9 billion in 1996, primarily reflecting the recognition of bilateral netting of current and potential exposures for qualifying derivative contracts during fiscal 1996.

Total risk-adjusted assets related to the bank's on-balance sheet assets and off-balance sheet financial instruments declined to 58.8% of total assets at October 31, 1996, from 66.1% a year earlier, reflecting a lower-risk portfolio.

Recent regulatory developments

In the past three years, the BIS has made a number of amendments to its risk-based capital framework. In 1994, the framework was amended to recognize the risk-reducing benefits of qualifying bilateral netting arrangements. Further amendments were made in 1995 which expanded the recognition of the effects of netting to potential future exposure amounts in calculating the credit-equivalent amount of derivative transactions. The Superintendent of Financial Institutions Canada's recognition of qualifying netting arrangements for capital adequacy requirements became effective July 31, 1996. The adoption of these changes by the bank resulted in the reduction of the risk adjusted balances related to derivative instruments of approximately 27% at October 31, 1996. These amendments did not have a significant impact on the bank's overall Tier 1 and Total capital ratios.

During 1996, the BIS finalized its proposal to amend the 1988 Capital Accord to require capital underpinning for the market risk associated with the bank's trading activities. Backtesting, which involves ex-post comparisons between model results and actual performance, will be used in conjunction with the bank's internal risk measurement systems as a basis for applying capital charges. In addition to quantitative standards, the BIS proposal also sets out rigorous qualitative standards that regulators expect banks to adhere to in the management of market risk. These amendments are expected to be issued by the Superintendent of Financial Institutions Canada, requiring the bank to report under the new guidelines in January 1998.

The bank shares the strong interest of banking supervisors in a regulatory proposal that enforces the best risk management practice and currently are actively participating in consultative discussions with the Superintendent of Financial Institutions Canada and members of the Canadian Bankers Association on implementation issues surrounding the market risk capital amendment to the 1988 Capital Accord. The bank does not expect a material impact on its regulatory capital requirements as a result of these proposed amendments to the Capital Accord.

Management's Responsibility for Financial Reporting

The financial statements of Royal Bank of Canada were prepared by management, which is responsible for the integrity and fairness of the data presented, including the many amounts which must of necessity be based on estimates and judgments. The financial statements were prepared in accordance with generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada. Financial information appearing throughout this Annual Report is consistent with the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records maintained. These controls include quality standards in hiring and training of employees, written policies and procedure manuals, a written corporate code of conduct and accountability for performance within appropriate and well-defined areas of responsibility.

The system of internal controls is further supported by a compliance function, which ensures that the bank and its employees comply with securities legislation and conflict of interest rules, and by an internal audit staff, which conducts periodic audits of all aspects of the bank's operations.

The board of directors oversees management's responsibilities for financial reporting through an Audit Committee, which is composed entirely of directors who are neither officers nor employees of the bank. This Committee reviews the consolidated financial statements of the bank and recommends them to the board for approval. Other key responsibilities of the Audit Committee include reviewing the bank's existing internal control procedures and planned revisions to those procedures, and advising the directors on auditing matters and financial reporting issues. The bank's Compliance Officer and Chief Internal Auditor have full and unrestricted access to the Audit Committee.

The Superintendent of Financial Institutions Canada, at least once a year, makes such examination and enquiry into the affairs of the bank as deemed necessary to ensure that the provisions of the Bank Act, having reference to the safety of the depositors and shareholders of the bank, are being duly observed and that the bank is in a sound financial condition.

Deloitte & Touche and KPMG, independent auditors appointed by the shareholders of the bank upon the recommendation of the Audit Committee, have examined the financial statements and their report follows. The shareholders' auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the bank's financial reporting and the adequacy of the system of internal controls.

JOHN E. CLEGHORN
CHAIRMAN & CHIEF EXECUTIVE OFFICER

J. EMILIEN BOLDUC
VICE-CHAIRMAN & CHIEF FINANCIAL OFFICER

Montreal, December 4, 1996

IV

Auditors' Report

To the Shareholders of Royal Bank of Canada

We have audited the consolidated balance sheet of Royal Bank of Canada as at October 31, 1996 and the consolidated statements of income, changes in shareholders' equity and changes in financial position for the year then ended. These financial statements are the responsibility of the bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the bank as at October 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

The consolidated financial statements for the years ended October 31, 1995 and 1994 were audited by Deloitte & Touche and Price Waterhouse who expressed an opinion thereon without reservation in their report dated December 5, 1995.

DELOITTE & TOUCHE
KPMG
CHARTERED ACCOUNTANTS

Montreal, December 4, 1996

CONSOLIDATED BALANCE SHEET

AS AT OCTOBER 31 (IN MILLIONS OF DOLLARS)	1996	1995
ASSETS		
Cash resources		
Cash and deposits with Bank of Canada	$ 923	$ 1,117
Deposits with other banks		
Interest bearing	22,510	16,290
Non-interest bearing	134	303
	23,567	17,710
Securities *(note 3)*		
Investment account	25,357	19,105
Trading account	17,351	12,938
Loan substitute	782	662
	43,490	32,705
Loans *(note 4)*		
Residential mortgages	48,056	45,088
Consumer instalment and other personal loans	18,361	16,833
Credit card loans	3,522	3,435
Business and government loans	54,406	49,630
Assets purchased under reverse repurchase agreements	11,446	4,591
	135,791	119,577
Other		
Customers' liability under acceptances	7,423	6,300
Premises and equipment *(note 6)*	1,785	1,870
Other assets *(note 7)*	5,894	5,490
	15,102	13,660
	$217,950	$183,652
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits *(note 8)*		
Consumers	$ 90,774	$ 89,929
Businesses and governments	47,799	39,900
Banks	23,244	13,662
	161,817	143,491
Acceptances	7,423	6,300
Obligations related to assets sold under repurchase agreements	16,526	4,090
Obligations related to securities sold short	8,331	7,128
Other liabilities *(note 9)*	10,812	10,077
Subordinated debentures *(note 10)*	3,627	3,534
	208,536	174,620
Shareholders' equity		
Capital stock *(note 11)*		
Preferred	1,752	1,990
Common	2,876	2,910
Retained earnings	4,786	4,132
	9,414	9,032
	$217,950	$183,652

JOHN E. CLEGHORN
CHAIRMAN & CHIEF EXECUTIVE OFFICER

JOHN R. EVANS
DIRECTOR

CONSOLIDATED STATEMENT OF INCOME			
FOR THE YEAR ENDED OCTOBER 31 (IN MILLIONS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)	1996	1995	1994
Interest income			
Loans	$ 9,856	$10,057	$ 8,899
Securities	2,675	2,282	1,818
Deposits with banks	922	817	479
	13,453	13,156	11,196
Interest expense			
Deposits	7,115	7,362	5,477
Subordinated debentures	308	320	268
Other	1,140	807	783
	8,563	8,489	6,528
Net interest income	4,890	4,667	4,668
Other income			
Capital market fees	752	434	567
Deposit and payment service charges	701	681	661
Investment management and custodial fees	331	286	278
Card service revenues	282	278	258
Mutual fund revenues	241	190	202
Trading revenues	230	251	205
Other	484	490	503
	3,021	2,610	2,674
Gross revenues	7,911	7,277	7,342
Provision for credit losses	440	580	820
	7,471	6,697	6,522
Non-interest expenses			
Human resources	2,851	2,563	2,675
Occupancy	507	473	500
Equipment	492	506	460
Communications	523	461	450
Other	739	654	576
	5,112	4,657	4,661
Net income before income taxes	2,359	2,040	1,861
Income taxes *(note 12)*	880	755	655
Net income before non-controlling interest	1,479	1,285	1,206
Non-controlling interest in net income of subsidiaries	49	23	37
Net income	$ 1,430	$ 1,262	$ 1,169
Earnings per common share *(note 13)*	$ 4.09	$ 3.49	$ 3.19

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED OCTOBER 31 (IN MILLIONS OF DOLLARS)	1996	1995	1994
Preferred shares			
Balance at beginning of year	$1,990	$2,266	$2,248
Shares redeemed and purchased for cancellation *(note 11)*	(237)	(272)	–
Translation adjustment on shares denominated in foreign currency	(1)	(4)	18
Balance at end of year	$1,752	$1,990	$2,266
Common shares			
Balance at beginning of year	$2,910	$2,910	$2,910
Shares purchased for cancellation *(note 11)*	(34)	–	–
Balance at end of year	$2,876	$2,910	$2,910
Retained earnings			
Balance at beginning of year	$4,132	$3,413	$2,772
Cumulative effect of initial adoption of Impaired Loans accounting standard, net of taxes of $55 million *(note 5)*	(75)	–	–
Balance at beginning of year, as restated	4,057	3,413	2,772
Net income	1,430	1,262	1,169
Dividends *(note 11)*	(562)	(535)	(532)
Premium paid on common shares purchased for cancellation *(note 11)*	(136)	–	–
Unrealized foreign currency translation gains and losses, net of hedging activities and related income taxes	(3)	(8)	4
Balance at end of year	$4,786	$4,132	$3,413
Shareholders' equity at end of year	$9,414	$9,032	$8,589

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED OCTOBER 31 (IN MILLIONS OF DOLLARS)	1996	1995	1994
Cash flows from operating activities			
Net income	$ 1,430	$1,262	$1,169
Adjustments to determine cash flows from operating activities:			
Provision for credit losses	440	580	820
Net change in accrued interest receivable and payable	(357)	565	(414)
Deferred income taxes, net *(note 12)*	214	391	183
Depreciation	325	360	335
Net increase in trading account securities	(4,413)	(1,840)	(2,789)
Other items, net	61	12	(310)
	(2,300)	1,330	(1,006)
Cash flows from financing activities			
Net increase in deposits	18,326	7,676	5,416
Issue of subordinated debentures *(note 10)*	100	200	–
Subordinated debentures repurchased and cancelled	–	(135)	–
Preferred shares redeemed and purchased for cancellation *(note 11)*	(237)	(272)	–
Common shares purchased for cancellation *(note 11)*	(170)	–	–
Dividends *(note 11)*	(562)	(535)	(532)
Net change in obligations related to assets sold with recourse or under repurchase agreements	12,525	(1,606)	3,215
Other items, net	(59)	1,215	(1,185)
	29,923	6,543	6,914
Cash flows from investing activities			
Net increase in loans	(9,799)	(5,439)	(337)
Net increase in investment account and loan substitute securities	(6,265)	(3,153)	(272)
Net increase in non-operating deposits with other banks	(5,981)	(1,328)	(5,638)
Net acquisitions of premises and equipment	(240)	(255)	(253)
Net change related to assets purchased under reverse repurchase agreements	(6,855)	668	45
Net increase in obligations related to securities sold short	1,203	1,559	207
	(27,937)	(7,948)	(6,248)
Net decrease in cash and cash equivalents	(314)	(75)	(340)
Cash and cash equivalents, at beginning of year	1,107	1,182	1,522
Cash and cash equivalents, at end of year	$ 793	$1,107	$1,182
Consisting of:			
Cash and deposits with Bank of Canada	$ 923	$1,117	$1,187
Operating balances on deposit with other banks	668	598	595
Cheques and other items in transit, net *(note 9)*	(798)	(608)	(600)
Total	$ 793	$1,107	$1,182

IV

Note 1. Significant Accounting Policies

Pursuant to the Bank Act, the consolidated financial statements of Royal Bank of Canada are prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

Note 20 to the consolidated financial statements describes and reconciles the differences between Canadian and United States generally accepted accounting principles.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

The significant accounting policies followed in the preparation of these financial statements are summarized below.

Basis of Consolidation

The consolidated financial statements include the assets and liabilities and results of operations of all subsidiaries after elimination of intercompany transactions and balances. The bank accounts for the acquisition of subsidiaries using the purchase method; any difference between the cost of the investment and the fair value of the net assets acquired is amortized over appropriate periods of up to 15 years, except where a write-down is required to reflect permanent impairment.

The equity method is used to account for investments in associated corporations, which are corporations in which the bank holds at least a 20% interest but does not exercise control. The bank's share of earnings of these associated corporations and gains and losses realized on dispositions of investments in associated corporations are included in income from securities.

Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date; income and expenses are translated at prevailing quarter-end rates.

Unrealized foreign currency translation gains and losses (net of hedging activities and related income taxes) on investments in foreign branches, subsidiaries and associated corporations are recorded in Retained Earnings. On disposal of such investments, the accumulated net translation gain or loss is included in income. Other foreign currency translation gains and losses (net of hedging activities) are included in income.

Securities

Securities comprise investment account and trading account securities as well as loan substitute securities.

Investment account securities are purchased with the original intention to hold the securities to maturity or until market conditions render alternative investments more attractive. Equity securities are stated at cost and debt securities at amortized cost. Premiums and discounts on debt securities are amortized to interest income from securities using the yield method over the period to maturity of the related securities. Gains and losses realized on disposal of securities, which are calculated on an average cost basis, and write-downs to reflect other than temporary impairment in value are included in interest income from securities.

Trading account securities, which are purchased for resale over a short period of time, are stated at estimated current market value. Obligations to deliver trading securities sold but not yet purchased are recorded as liabilities and are carried at their fair values. Gains and losses realized on disposal, and unrealized valuation adjustments, are included in interest income from securities in the period in which they occur. Interest expense accruing on interest-bearing securities sold short are recorded in interest expense.

Loan substitute securities are customer financings which have been structured as after-tax investments rather than conventional loans in order to provide the issuers with a borrowing rate advantage. Such securities are accorded the accounting treatment applicable to Loans.

Loans

Loans are stated net of an allowance for credit losses and unearned income, which is comprised of unearned interest and unamortized loan fees.

Loans are classified as impaired when there is no longer reasonable assurance of the timely collection of principal and interest. Whenever a payment is 90 days past due, loans other than credit card balances are automatically classified as impaired unless they are well secured and in the process of collection. Credit card balances are written off when a payment is 180 days in arrears. When a loan has been identified as impaired, the carrying amount of the loan is reduced to its estimated realizable amount, measured by discounting the expected future cash flows at the effective interest rate inherent in the loan. In subsequent periods, any increase in the carrying value of the loan is credited to the provision for credit losses. Interest received on impaired loans is credited to the carrying value of the loan. Impaired loans are returned to performing status when there is no longer any reasonable doubt regarding the timely collection of principal and interest, all amounts in arrears (including interest) have been collected and all charges for loan impairment have been reversed. Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis when there is no longer any reasonable doubt regarding the collectibility of principal and interest, and payments are not 90 days past due.

Collateral is obtained if, based on an evaluation of the customer's credit-worthiness, it is considered necessary for the customer's overall borrowing facility. Collateral would normally be in the form of assets such as cash, government securities, shares, accounts receivable, inventory, or fixed assets.

Assets acquired in satisfaction of problem loans are recorded at the lesser of their fair value at the date of transfer or the carrying value of the loan. Any excess of the carrying value of the loan over the fair value of the assets acquired is written off. Operating results and gains and losses on disposal of these assets are treated as write-offs and recoveries.

Fees which relate to such activities as originating, restructuring or renegotiating loans are recognized as "Interest income" over the expected term of such loans. Where there is reasonable expectation that a loan will result, commitment and standby fees are also recognized as "Interest income" over the expected term of the resulting loan. Otherwise, such fees are recognized as "Other income" over the commitment or standby period.

Allowance for Credit Losses

The allowance for credit losses is maintained in an amount considered adequate to absorb estimated credit-related losses. Credit losses arise primarily from loans but also relate to deposits with other banks, derivatives, loan substitute securities and other credit instruments such as acceptances, guarantees and letters of credit. The allowance is increased by provisions for credit losses which are charged to income, and reduced by write-offs net of recoveries and by losses realized on sales and exchanges of loans to less developed countries (LDCs).

Specific provisions are established on an individual facility basis to recognize credit losses on business and government loans. For residential mortgages and consumer loans (excluding credit card balances), aggregate provisions are recorded by reference to historical ratios of write-offs to balances outstanding. For credit card balances, no provisions are recorded; instead, balances are written off when no payment has been received for 180 days.

A country risk provision is made in respect of aggregate exposures to a number of LDCs based on an overall assessment of the underlying economic conditions in those countries.

General provisions are established to absorb credit losses attributable to the deterioration of credit quality on aggregate exposures including those in particular industries or geographic regions (excluding LDCs), for which specific provisions cannot yet be determined.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and there is no realistic prospect of recovery.

Losses realized on sales and exchanges of LDC loans represent the excess of the face value of the loans given up over the cash and/or the fair value of the loans or securities received.

Assets Purchased under Reverse Repurchase Agreements and Assets Sold under Repurchase Agreements

The bank enters into short-term purchases of securities under agreements to resell (reverse repurchase agreements) and sales of securities under agreements to repurchase (repurchase agreements). These agreements are treated as collateralized lending and borrowing transactions and are carried on the balance sheet at the amounts at which the securities were initially acquired or sold. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are reported as interest income and interest expense, respectively.

Acceptances

The potential liability under acceptances is reported as a liability in the balance sheet. The recourse against the customer in the case of a call on these commitments is reported as an offsetting asset of the same amount.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is recorded principally on the straight-line basis over the estimated useful lives as indicated herein. Gains and losses on disposal are recorded in "Other income".

BUILDINGS	25 TO 50 YEARS
COMPUTER EQUIPMENT	3 TO 10 YEARS
FURNITURE, FIXTURES AND OTHER EQUIPMENT	7 TO 10 YEARS
LEASEHOLD IMPROVEMENTS	TERM OF LEASE PLUS FIRST OPTION PERIOD

Income Taxes

The tax allocation basis of accounting is followed, under which income taxes on specific transactions are recorded in the periods in which the transactions are recognized for accounting purposes, regardless of when the transactions are recognized for tax purposes. Income taxes comprise amounts applicable to income included in the Statement of Income and to items charged or credited to Retained Earnings.

Deferred income taxes accumulated as a result of timing differences are included in "Other assets". In addition, the Statement of Income contains items which are non-taxable or non-deductible for income tax purposes and, accordingly, cause the income tax provision to be different than it would be if based on statutory rates.

Derivatives

Derivatives are used in sales and trading activities to provide clients with the ability to manage their market risk exposures. Derivatives are also used to manage the bank's own exposures to interest, currency and other market risks. The most frequently used derivative products are foreign exchange forward contracts, interest rate and currency swaps, foreign currency and interest rate futures, forward rate agreements, and foreign currency and interest rate options.

When used in sales and trading activities, derivatives are marked to market and the resultant gains and losses are recognized in "Other income" immediately, except where the portfolio is primarily comprised of instruments with initial terms of more than two years. In the latter case, a portion of the mark to market gain is deferred and amortized to "Other income" over the life of the instruments to cover related credit risk and administrative expenses. Market values are determined using pricing models which incorporate current market and contractual prices of the underlying instruments, time value of money, yield curve and volatility factors. Unrealized gains and losses on portfolios of derivatives are netted and reported in "Other assets" or "Other liabilities".

Gains and losses on derivatives which the bank enters into for purposes of hedging its own risk exposures are generally deferred and amortized over the lives of the hedged assets or liabilities as adjustments to interest income or interest expense.

Postretirement Benefits

The bank maintains a defined benefit pension plan which is available to substantially all employees after two years service or at age 25, on a contributory or a non-contributory basis. The plan provides pensions based on years of service and contributions, and average earnings at retirement. Employees of subsidiaries of the bank are generally covered by separate pension plans which offer comparable benefits. It is the bank's funding policy to annually contribute to its pension funds the actuarially determined amounts needed to satisfy employee benefit laws. Investments held by the pension funds are primarily comprised of equity securities, bonds and debentures.

Actuarial valuations are performed each year to determine the present value of the accrued pension benefits, based on projections of employees' compensation levels to the time of retirement. Pension fund assets are carried at adjusted market values, with adjustments to bring the value of the assets to market value being made over a three year period.

Pension expense consists of the aggregate of (a) the actuarially computed cost of pension benefits provided in respect of the current year's service, (b) imputed interest on the funding excess or deficiency of the plan and (c) the amortization over the expected average remaining service life of employees of the funding excess existing at the date the current accounting policy commenced, experience gains and losses, and amounts arising as a result of changes in assumptions and plan amendments.

The cumulative excess of pension fund contributions over the amounts recorded as expense is reported as "prepaid pension cost" in "Other assets".

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The bank also provides health and dental care benefits and life insurance coverage to employees who retire after ten years service, and to their dependents. Costs of providing these benefits are charged to income as expenditures are incurred.

Recently Issued Accounting Standards

The *Canadian Institute of Chartered Accountants* recently issued handbook section 3860, *"Financial Instruments – Disclosure and Presentation"* which will be adopted by the bank commencing November 1, 1996. The standard prescribes requirements for disclosure and presentation of financial instruments, including the circumstances in which financial assets and financial liabilities are offset, and the classification of debt and equity instruments.

The offsetting standard, which will mainly affect the bank's trading derivative instruments, requires that a financial asset and a financial liability be offset and the net amount reported in the balance sheet where the contracts are covered by a qualifying master netting agreement and the bank intends to settle on a net basis, or to realize the asset and settle the liability simultaneously. Unrealized gains and unrealized losses relating to trading derivatives will be shown separately as assets and liabilities, respectively, unless the offset conditions are met. Currently, trading derivatives are recorded on the balance sheet at their estimated market values with unrealized gains and losses netted and reported in "Other assets" or "Other liabilities". Had the bank adopted this new accounting standard at October 31, 1996, the bank's reported assets and liabilities would have increased by $13.5 billion.

The new standard also requires an entity to classify a financial instrument as either debt or equity in accordance with the substance of its contractual arrangement. The bank does not anticipate a change in the current classification of its existing financial instruments.

Note 2. Domestic and International Operations

The bank considers its Domestic Operations to include all business transacted in Canada, regardless of currency, with the exception of the Canadian-based activities of the international money market units. These units' activities, together with the bank's business carried on outside Canada, comprise International Operations.

While it is not practicable to make a definitive division of the bank's Domestic and International Operations, appropriate allocations are made for (a) the cost of funds related to liquidity and capital computed on the basis of marginal costs of funds and (b) corporate non-interest expenses.

	DOMESTIC			INTERNATIONAL			TOTAL		
	1996	1995	1994	**1996**	1995	1994	**1996**	1995	1994
Net interest income – taxable equivalent basis	**$ 4,162**	$ 3,976	$ 3,980	**$ 758**	$ 731	$ 737	**$ 4,920**	$ 4,707	$ 4,717
Deduct: Taxable equivalent adjustment*	**30**	39	48	**–**	1	1	**30**	40	49
Net interest income – financial statement basis	**4,132**	3,937	3,932	**758**	730	736	**4,890**	4,667	4,668
Other income									
Capital market fees	**676**	396	520	**76**	38	47	**752**	434	567
Deposit and payment service charges	**672**	653	634	**29**	28	27	**701**	681	661
Investment management and custodial fees	**239**	215	194	**92**	71	84	**331**	286	278
Card service revenues	**282**	278	258	**–**	–	–	**282**	278	258
Mutual fund revenues	**241**	190	202	**–**	–	–	**241**	190	202
Trading revenues	**67**	42	47	**163**	209	158	**230**	251	205
Other	**259**	240	282	**225**	250	221	**484**	490	503
	2,436	2,014	2,137	**585**	596	537	**3,021**	2,610	2,674
Gross revenues	**6,568**	5,951	6,069	**1,343**	1,326	1,273	**7,911**	7,277	7,342
Provision for credit losses	**740**	484	786	**(300)**	96	34	**440**	580	820
	5,828	5,467	5,283	**1,643**	1,230	1,239	**7,471**	6,697	6,522
Non-interest expenses									
Human resources	**2,509**	2,229	2,367	**342**	334	308	**2,851**	2,563	2,675
Occupancy	**440**	409	438	**67**	64	62	**507**	473	500
Equipment	**409**	416	377	**83**	90	83	**492**	506	460
Communications	**480**	418	411	**43**	43	39	**523**	461	450
Other	**609**	530	444	**130**	124	132	**739**	654	576
	4,447	4,002	4,037	**665**	655	624	**5,112**	4,657	4,661
	1,381	1,465	1,246	**978**	575	615	**2,359**	2,040	1,861
Income taxes	**637**	641	493	**243**	114	162	**880**	755	655
	744	824	753	**735**	461	453	**1,479**	1,285	1,206
Non-controlling interest in net income of subsidiaries	**46**	21	35	**3**	2	2	**49**	23	37
Net income	**$ 698**	$ 803	$ 718	**$ 732**	$ 459	$ 451	**$ 1,430**	$ 1,262	$ 1,169
Average total assets	**$148,600**	$138,700	$134,100	**$45,000**	$34,400	$32,600	**$193,600**	$173,100	$166,700

* *The taxable equivalent adjustment represents a credit to interest income in order to gross up the tax-exempt income earned on certain securities (primarily loan substitute securities) to an amount which, had it been taxable at a rate of 42.9% (1995 – 42.7%; 1994 – 42.4%), would result in the same after-tax net income as appears in the financial statements. The gross-up of such income to a taxable equivalent basis permits a uniform measurement and comparison of net interest income.*

Note 3. Securities

	Term to maturity: Within 1 year	1 to 5 years	5 to 10 years	Over 10 years	1996 Total	1995 Total
Investment account securities						
Canadian government debt *(1)*						
Carrying value	$ 8,752	$ 5,498	$ 271	$ 85	**$14,606**	$13,458
Estimated market value	8,836	5,764	293	91	**14,984**	13,615
Yield *(2)*	5.1%	6.8%	7.5%	7.7%	**5.8%**	7.3%
Securities of U.S. Treasury and other U.S. Agencies						
Carrying value	4,273	–	209	–	**4,482**	983
Estimated market value	4,274	–	209	–	**4,483**	983
Yield *(2)*	6.8%	–	6.1%	–	**6.7%**	5.9%
Foreign OECD government debt (other than U.S.)						
Carrying value	32	217	42	155	**446**	1,124
Estimated market value	32	222	42	160	**456**	1,118
Yield *(2)*	6.7%	6.8%	8.2%	9.4%	**6.9%**	7.8%
Mortgage-backed securities						
Carrying value	433	620	–	–	**1,053**	1,338
Estimated market value	443	659	–	–	**1,102**	1,346
Yield *(2)*	7.8%	7.6%	–	–	**7.7%**	7.8%
Other debt						
Carrying value	2,228	1,310	421	28	**3,987**	1,315
Estimated market value	2,226	1,327	421	30	**4,004**	1,337
Yield *(2)*	5.7%	5.6%	7.0%	7.5%	**5.8%**	6.5%
Bonds of less developed countries *(3)*						
Carrying value	–	–	–	335	**335**	797
Estimated market value	–	–	–	469	**469**	834
Yield *(2)*	–	–	–	11.5%	**11.5%**	11.2%
Equities *(4)*						
Carrying value	–	–	–	448	**448**	90
Estimated market value	–	–	–	479	**479**	103
Yield *(2)*	–	–	–	7.8%	**7.8%**	7.6%
Total investment account securities						
Carrying value	15,718	7,645	943	1,051	**25,357**	19,105
Estimated market value	15,811	7,972	965	1,229	**25,977**	19,336
Trading account securities						
Canadian government debt *(1)*	1,371	6,197	1,348	1,770	**10,686**	8,233
Securities of U.S. Treasury and other U.S. Agencies	85	183	105	–	**373**	317
Foreign OECD government debt (other than U.S.)	134	133	–	–	**267**	662
Other debt	2,591	1,331	26	–	**3,948**	2,895
Equities *(4)*	–	–	–	2,077	**2,077**	831
	4,181	7,844	1,479	3,847	**17,351**	12,938
Loan substitute securities *(5)*	–	419	43	320	**782**	662
Total	$19,899	$15,908	$2,465	$5,218	**$43,490**	$32,705

(1) Canadian government debt is comprised of securities issued or guaranteed by Canadian federal, provincial or municipal governments.
(2) Represents weighted-average yield based on the carrying value at the end of the year for the respective securities.
(3) These securities include restructured collateralized bonds of less developed countries, net of a country risk provision of $326 million (1995 – $666 million).
(4) Equities, which have no stated term, have been classified under the "Over 10 years" column.
(5) The market value of loan substitute securities approximates carrying value.

Note 3. Securities (continued)

UNREALIZED GAINS AND LOSSES ON INVESTMENT ACCOUNT SECURITIES

	1996				1995			
	BOOK VALUE	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED MARKET VALUE	BOOK VALUE	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED MARKET VALUE
Canadian government debt	$14,606	$378	$ –	$14,984	$13,458	$189	$ (32)	$13,615
Securities of U.S. Treasury and other U.S. Agencies	4,482	5	(4)	4,483	983	4	(4)	983
Foreign OECD government debt (other than U.S.)	446	11	(1)	456	1,124	25	(31)	1,118
Mortgage-backed securities	1,053	49	–	1,102	1,338	42	(34)	1,346
Other debt	3,987	27	(10)	4,004	1,315	26	(4)	1,337
Bonds of less developed countries	335	134	–	469	797	37	–	834
Equities	448	33	(2)	479	90	19	(6)	103
	$25,357	$637	$(17)	$25,977	$19,105	$342	$(111)	$19,336

Note 4. Loans

	1996	1995
Domestic*		
Residential mortgages	$ 47,614	$ 44,608
Consumer instalment and other personal loans	17,815	16,308
Credit card loans	3,522	3,435
Business and government loans	33,983	34,790
Assets purchased under reverse repurchase agreements	11,065	4,007
	113,999	103,148
Allowance for credit losses	(1,617)	(1,487)
	112,382	101,661
International*		
Residential mortgages	507	524
Consumer instalment and other personal loans	623	615
Business and government loans	22,156	16,709
Assets purchased under reverse repurchase agreements	381	584
	23,667	18,432
Allowance for credit losses	(258)	(516)
	23,409	17,916
Total**	$135,791	$119,577

**Domestic loans include all loans booked in Canada, regardless of currency, with the exception of those of the Canadian-based international money market units. The loans of these units, together with loans booked outside Canada, comprise International loans.*
***Loans are reported net of unearned income of $250 million (1995 – $257 million).*

IMPAIRED LOANS (INCLUDED ABOVE)

	GROSS	SPECIFIC PROVISIONS	GENERAL PROVISION	COUNTRY RISK PROVISION*	1996 NET	1995 NET
Domestic						
Residential mortgages	$ 188	$ 65	$ –	$ –	$123	$ 167
Consumer instalment and other personal loans	117	77	–	–	40	41
Business loans**	1,762	809	700	–	253	744
	2,067	951	700	–	416	952
International, excluding LDC loans	246	138	–	–	108	196
LDC loans	63	2	–	61	–	–
Total	$2,376	$1,091	$700	$61	$524	$1,148

**The allowance for credit losses is shown net of that portion of the country risk provision that is in excess of impaired LDC loans in the amount of $383 million (1995 – $873 million).*
***Included in Business loans are specific provisions related to loan substitute securities of $34 million (1995-nil).*

Note 4. Loans (continued)

Restructured Loans

The bank's only significant loan restructurings have resulted in the receipt of "Bonds of less developed countries" and, in the case of Mexican debt, in the receipt of "Foreign OECD government debt". These bonds, which are included in investment account securities, result from the following restructurings:

The 1994 exchange of $1.2 billion of Brazilian loans for $1.1 billion of bonds ($800 million of which are collateralized by zero coupon U.S. Treasury securities) plus $135 million of past due interest bonds. The bonds carry interest rates that vary from 4% (gradually rising to 8%) to LIBOR plus 7/8%.

The 1993 exchange of $300 million of Argentine loans for $285 million of par and discount bonds with interest rates ranging from 4% (gradually increasing to 6%) to LIBOR plus 13/16%, plus $9 million of past due interest bond.

The 1990 receipt of interest-rate reduction bonds of $230 million, bearing a fixed interest rate of 6.25% (which are collateralized by zero coupon U.S. Treasury securities), in connection with the Mexican debt restructuring agreement.

The total market and carrying values of the above restructured bonds as at October 31, 1996 were $629 million and $490 million respectively.

Note 5. Allowance for Credit Losses

							1996	1995
	Balance at beginning of year	Change in accounting policy*	Write-offs	Recoveries	Provision for credit losses	Other	Balance at end of year	Balance at end of year
Domestic								
Residential mortgages	$ 44	$ 27	$ (46)	$ 11	$ 29	$ –	**$ 65**	$ 44
Consumer instalment and other personal loans	90	4	(133)	21	95	–	**77**	90
Credit card loans	–	–	(104)	28	76	–	**–**	–
Business loans**	1,353	93	(542)	65	540	–	**1,509**	1,353
Total	1,487	124	(825)	125	740	–	**1,651**	1,487
International								
Excluding LDC loans	250	6	(124)	9	–	(3)	**138**	250
LDC loans	932	–	(186)	–	(300)	–	**446**	932
Total	1,182	6	(310)	9	(300)	(3)	**584**	1,182
Total bank	$2,669	$130	$(1,135)	$134	$ 440	$(3)	**$2,235**	$2,669
Consisting of:								
Specific provisions	$1,440	$130	$ (949)	$134	$ 340	$(4)	**$1,091**	$1,440
Country risk provision***	929	–	(186)	–	(300)	1	**444**	929
General provision	300	–	–	–	400	–	**700**	300
	$2,669	$130	$(1,135)	$134	$ 440	$(3)	**$2,235**	$2,669

* *On November 1, 1995, the bank adopted the new accounting standard issued by the Canadian Institute of Chartered Accountants relating to accounting for impaired loans, as well as implementation guidelines issued by the Superintendent of Financial Institutions Canada, resulting in an increase of $130 million in allowance for credit losses. The initial cumulative effect of adopting this standard, net of taxes, has been charged to opening retained earnings.*

** *Business loans include an amount of $34 million (1995-nil) related to loan substitute securities.*

*** *The country risk provision includes an amount of $326 million (1995 – $666 million) which has been deducted from securities in respect of restructured collateralized bonds of less developed countries.*

Note 6. Premises and Equipment

			1996	1995
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	NET BOOK VALUE
Land	$ 224	$ –	$ 224	$ 215
Buildings	1,097	386	711	731
Computer equipment	1,385	954	431	479
Furniture, fixtures and other equipment	597	372	225	227
Leasehold improvements	437	243	194	218
	$3,740	$1,955	$1,785	$1,870

Note 7. Other Assets

	1996	1995
Accrued interest	$1,464	$1,218
Deferred income taxes, net	1,103	1,264
Assets sold with recourse	905	816
Amounts receivable from brokers, dealers and clients	500	329
Goodwill	335	333
Prepaid pension cost	251	229
Other items, including accounts receivable and prepaid expenses	1,336	1,301
	$5,894	$5,490

Note 8. Deposits

	PAYABLE ON DEMAND				PAYABLE AFTER NOTICE		PAYABLE ON A FIXED DATE		TOTAL	
	INTEREST BEARING		NON-INTEREST BEARING							
	1996	1995	1996	1995	1996	1995	1996	1995	1996	1995
Domestic*										
Consumers	$1,570	$1,279	$ 1,838	$1,606	$25,567	$25,628	$ 56,212	$56,147	$ 85,187	$ 84,660
Businesses and governments	2,959	4,159	8,068	6,737	6,448	6,909	13,876	9,895	31,351	27,700
Banks	85	90	584	602	5	5	1,270	1,721	1,944	2,418
	4,614	5,528	10,490	8,945	32,020	32,542	71,358	67,763	118,482	114,778
International*										
Consumers	365	233	99	148	1,018	913	4,105	3,975	5,587	5,269
Businesses and governments	1,214	1,396	259	309	144	516	14,831	9,979	16,448	12,200
Banks	290	88	337	166	905	–	19,768	10,990	21,300	11,244
	1,869	1,717	695	623	2,067	1,429	38,704	24,944	43,335	28,713
Total	$6,483	$7,245	$11,185	$9,568	$34,087	$33,971	$110,062	$92,707	$161,817	$143,491

* *Domestic deposits include all deposits booked in Canada, regardless of currency, with the exception of those of the Canadian-based international money market units. The deposits of these units, together with deposits booked outside Canada, comprise international deposits.*

Note 9. Other Liabilities

	1996	1995
Secured liabilities of subsidiaries other than deposits	$2,854	$2,843
Accrued interest	2,372	2,483
Obligations related to assets sold with recourse	905	816
Cheques and other items in transit, net	798	608
Amounts payable to brokers, dealers and clients	569	903
Income taxes payable	260	83
Dividends payable	130	125
Non-controlling interest in subsidiaries	108	107
Other items, including accounts payable and accrued expenses	2,816	2,109
	$10,812	$10,077

Note 10. Subordinated Debentures

The debentures are unsecured obligations and are subordinated in right of payment to the claims of depositors and certain other creditors. All repurchases and cancellations of subordinated debentures are subject to the consent and approval of the Superintendent of Financial Institutions Canada.

MATURITY	RATE			DENOMINATED IN U.S.$	1996	1995
Royal Bank of Canada (1)						
June 1, 1998	10.80%			–	**$ 200**	$ 200
January 15, 1999	10.90%			–	**250**	250
October 14, 1999	10.20%			–	**250**	250
July 1, 2000	11.00%			–	**200**	200
January 31, 2001	11.75%			–	**200**	200
August 15, 2001		(2)		219	**293**	294
January 11, 2002	11.00%			–	**300**	300
March 1, 2002	10.50%			–	**250**	250
July 29, 2005		(3)	Callable	350	**468**	471
April 26, 2011		(4)	Callable	–	**100**	–
November 14, 2014	10.00%			–	**200**	200
June 8, 2023	9.30%			–	**110**	110
October 1, 2083		(5)	Callable	–	**250**	250
June 6, 2085		(6)	Callable	300	**401**	403
Royal Trust Corporation of Canada						
November 9, 1998		(7)		50	**68**	68
January 27, 1999		(8)		65	**87**	88
					$3,627	$3,534

(1) On November 25, 1996, the bank issued U.S.$ 300 million of debentures maturing October 24, 2011 and bearing interest at a rate of 6.75% until October 24, 2006 and thereafter until maturity at a rate of 1.00% above the U.S.$ six-month LIBOR.

(2) The August 15, 2001 debentures, issued in Canadian dollars and bearing interest at a rate of 10.75%, were swapped at their issue date into a U.S. dollar obligation.

(3) The July 29, 2005 debentures bear interest at a rate of 0.0625% above the U.S.$ one-month LIBOR.

(4) The April 26, 2011 debentures bear interest at a rate of 8.20% until April 26, 2006 and thereafter until maturity at a rate of 1.00% above the 90-day Bankers' Acceptance rate reported by the Bank of Canada.

(5) The October 1, 2083 debentures bear interest at a rate of 0.40% above the 30-day Bankers' Acceptance rate reported by the Bank of Canada.

(6) The June 6, 2085 debentures bear interest at a rate equal to 0.25% above the U.S.$ three-month LIMEAN. In the event of a reduction of the annual dividend declared by the bank on its Common Shares, the interest payable on the debentures is reduced pro-rata to the dividend reduction and the interest reduction is payable with the proceeds from the sale of Common Shares.

(7) The November 9, 1998 debentures, issued in Yen and bearing interest at 7.7% payable in Australian dollars, were swapped at their issue date into a U.S. dollar obligation.

(8) The January 27, 1999 debentures, issued in Yen and bearing interest at 7.5% payable in Australian dollars, were swapped at their issue date into a U.S. dollar obligation.

Repayment Schedule

The aggregate sinking fund requirements and maturities of the debentures, assuming the earliest possible dates of maturity under the terms of issue, are as follows:

Within 1 year	$ –
From 1 to 5 years	1,394
From 5 to 10 years	1,018
Over 10 years	1,215
	$3,627

Note 11. Capital Stock

Authorized Capital Stock

Preferred – An unlimited number of First Preferred Shares and Second Preferred Shares without nominal or par value, issuable in series; the aggregate consideration for which all the First Preferred Shares and all the Second Preferred Shares may be issued shall not exceed $5 billion in each case.

Common – An unlimited number of shares without nominal or par value provided that the aggregate consideration for which all common shares may be issued shall not exceed $10 billion.

OUTSTANDING CAPITAL STOCK	1996		1995		1994	
	NUMBER OF SHARES (IN THOUSANDS)	AMOUNT	NUMBER OF SHARES (IN THOUSANDS)	AMOUNT	NUMBER OF SHARES (IN THOUSANDS)	AMOUNT
Preferred (1)						
$1.45 Cumulative Redeemable Series B (2)	–	$ –	–	$ –	13,600	$ 272
Cumulative Redeemable Series C (2)	–	–	1,000	100	1,000	100
U.S.$ Cumulative Redeemable Series D (2)	–	–	1,000	135	1,000	135
Cumulative Redeemable Series E (3)	**1,500**	**150**	1,500	150	1,500	150
Non-cumulative Series F (4)	**6,000**	**150**	6,000	150	6,000	150
Non-cumulative Series G (5)	**10,000**	**250**	10,000	250	10,000	250
Non-cumulative Series H (6)	**12,000**	**300**	12,000	300	12,000	300
U.S.$ Non-cumulative Series I (7)	**8,000**	**268**	8,000	269	8,000	271
Non-cumulative Series J (8)	**12,000**	**300**	12,000	300	12,000	300
U.S.$ Non-cumulative Series K (9)	**10,000**	**334**	10,000	336	10,000	338
Total outstanding preferred stock		**1,752**		1,990		2,266
Total outstanding common stock (10)	**310,529**	**2,876**	314,155	2,910	314,155	2,910
Total outstanding capital stock		**$4,628**		$4,900		$5,176

(1) All redemption and purchase for cancellation options on preferred shares are subject to the consent of the Superintendent of Financial Institutions Canada. First Preferred Shares Series F, G, H and J are redeemable by the bank on and after the dates specified below (i) in cash, at a price per share of $25 or (ii) by the conversion of each such share to be redeemed into that number of Common Shares determined by dividing $25 by 95% of the average market price of the Common Shares at such time. On and after the dates specified below, subject to the right of the bank to redeem or to find substitute purchasers, each share of the First Preferred Shares Series G, H and J will be convertible quarterly at the option of the holder into that number of Common Shares determined by dividing $25 by 95% of the average market price of the Common Shares at such time. First Preferred Shares Series I and K are redeemable by the bank on and after the dates specified below (i) in cash, at a price per share of U.S.$25 or (ii) by the conversion of each such share to be redeemed into that number of Common Shares determined by dividing U.S.$25 by the U.S. dollar equivalent of 95% of the average market price of the Common Shares at such time. On and after the dates specified below, subject to the right of the bank to redeem or to find substitute purchasers, each share of the First Preferred Shares Series I and K will be convertible quarterly at the option of the holder into that number of Common Shares determined by dividing U.S.$25 by the U.S. dollar equivalent of 95% of the average market price of the Common Shares at such time.

(2) During 1995 and 1996, the bank redeemed and purchased for cancellation the **First Preferred Shares Series B, C and D** at their face value.

(3) The dividend on the **First Preferred Shares Series E** is payable monthly and (i) floats in relation to changes in the bank's Canadian prime rate and (ii) is adjusted upwards or downwards based on changes in market trading value. The annual dividend rate applicable to any month will in no event be less than 55% or greater than 75% of the average prime rate. Such shares are redeemable at a price per share of $100 and the bank may, at any time, purchase for cancellation such shares at a price per share not exceeding $100.

(4) The dividend on the **First Preferred Shares Series F** is payable quarterly at a rate equal to the greater of (i) $0.5625 per share and (ii) 81.522% of the dividend per Common Share for the same quarter. Such shares are not redeemable by the bank prior to October 31, 1999, but thereafter are redeemable as discussed in footnote (1) above.

(5) The dividend on the **First Preferred Shares Series G** is payable quarterly at a rate of $0.53125 per share until October 31, 1999 and, thereafter, is payable quarterly at a rate equal to the greater of (i) $0.53125 per share and (ii) 81.522% of the dividend per Common Share for the same quarter. Such shares are not redeemable by the bank prior to October 31, 1999, but thereafter are redeemable as discussed in footnote (1) above. On and after October 31, 2000, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.

IV

Note 11. Capital Stock (continued)

(6) The dividend on the **First Preferred Shares Series H** is payable quarterly at a rate of $0.5625 per share. Such shares are not redeemable by the bank prior to August 24, 2001, but thereafter are redeemable as discussed in footnote (1) above. On and after November 24, 2001, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.

(7) The dividend on the **First Preferred Shares Series I** is payable quarterly at a rate of U.S.$0.4766 per share. Such shares are not redeemable by the bank prior to November 24, 2001, but thereafter are redeemable as discussed in footnote (1) above. On and after February 24, 2002, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.

(8) The dividend on the **First Preferred Shares Series J** is payable quarterly at a rate of $0.44375 per share. Such shares are not redeemable by the bank prior to May 24, 2003, but thereafter are redeemable as discussed in footnote (1) above. On and after November 24, 2003, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.

(9) The dividend on the **First Preferred Shares Series K** is payable quarterly at a rate of U.S.$0.39375 per share. Such shares are not redeemable by the bank prior to May 24, 2003, but thereafter are redeemable as discussed in footnote (1) above. On and after November 24, 2003, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.

(10) In September 1996, the bank announced its intention to repurchase up to 31,272,424 common shares during the 12 months ending September 25, 1997. Purchases will be made in the open market at market prices through the facilities of the Toronto and Montreal stock exchanges, and in accordance with stock exchange requirements. The amount and timing of purchases are determined by the bank. Any premium that is paid to acquire the shares over and above the average carrying value will be charged to retained earnings. As at October 31, 1996, 3,631,000 common shares had been repurchased at a cost of $170 million, common stock outstanding being reduced by $34 million and retained earnings by $136 million.

(11) During 1994, the bank introduced a stock option plan for certain key employees. Under this plan, options will periodically be granted to purchase Common Shares at prices not less than the market price of such shares immediately prior to the grant date. The options vest over a four year period and are exercisable for periods not exceeding ten years. Options were granted during 1996 and 1995 for the purchase of 2,045,000 and 276,800 Common Shares at an exercise price of $31.35 per share and $28.91 per share respectively. During 1996, 5,525 options were exercised at a weighted average exercise price of $30.02. As at October 31, 1996, 10,000,000 shares were authorized for issuance under the plan and 2,475,700 options were outstanding.

DIVIDENDS DECLARED	TOTAL			PER SHARE				
	1996	1995	1994	1996	1995	1994	1993	1992
First Preferred								
Series B	$ –	$ 14	$ 20	$ –	$1.00	$1.45	$1.45	$1.45
Series C	5	7	7	$4.60	$6.67	$6.67	$6.67	$6.67
Series D	6	9	9	US$4.60	US$6.67	US$6.67	US$6.67	US$6.67
Series E	7	9	7	$5.00	$6.43	$4.84	$4.84	$5.68
Series F	14	14	14	$2.25	$2.25	$2.25	$2.25	$2.25
Series G	21	21	21	$2.13	$2.13	$2.13	$2.13	$2.13
Series H	27	27	27	$2.25	$2.25	$2.25	$2.25	$2.25
Series I	21	21	21	US$1.91	US$1.91	US$1.91	US$1.91	US$1.91
Series J	21	21	21	$1.78	$1.78	$1.78	$1.32	–
Series K	22	21	21	US$1.58	US$1.58	US$1.58	US$1.17	–
	144	164	168					
Common	418	371	364	$1.33	$1.18	$1.16	$1.16	$1.16
	$562	$535	$532					

Regulatory Capital

The bank is subject to various regulatory capital requirements as defined and administered by the Superintendent of Financial Institutions Canada. The two measures of regulatory capital strength are risk-adjusted capital ratios and the assets-to-capital multiple. These calculations are based on standards issued by the Bank for International Settlements (BIS) in 1988 and subsequently updated.

Risk-adjusted capital ratios are calculated by dividing Tier 1 (representing more permanent forms of capital) and Total capital by risk-adjusted assets. Risk-adjusted assets are determined by applying risk-weights to on-balance sheet assets and off-balance sheet financial instruments according to the relative credit risk of the counterparty. Banks are required to maintain a minimum Tier 1 and Total capital ratio of 4.0% and 8.0% respectively. As at October 31, 1996, the Tier 1 and Total capital ratios were 7.0% and 9.4% respectively (1995 – 6.9% and 9.8% respectively).

The assets-to-capital multiple is calculated by dividing the bank's total assets, including specified off-balance sheet financial instruments by its Total capital, as determined in the risk-adjusted capital ratio. Total assets should be no greater than 20 times Total capital. At October 31, 1996, the assets-to-capital multiple was 18.8 times (1995 – 16.1 times).

Note 12. Income Taxes

	1996	1995	1994
Income taxes reported in the financial statements are as follows:			
In income	$880	$755	$655
In retained earnings			
Unrealized foreign currency translation gains and losses, net of hedging activities	12	22	(95)
Taxes related to the initial adoption of the Impaired Loans accounting standard	(55)	–	–
Total income taxes	$837	$777	$560
The current and deferred income taxes are as follows:			
Current income taxes:			
Domestic			
Federal	$303	$246	$242
Provincial	218	87	71
	521	333	313
Foreign	102	53	64
	623	386	377
Deferred income taxes:			
Domestic			
Federal	206	271	130
Provincial	8	118	51
	214	389	181
Foreign	–	2	2
	214	391	183
Total income taxes	$837	$777	$560

	1996		1995	1994
Income taxes in the Consolidated Statement of Income vary from the amount that would be computed by applying the composite federal and provincial statutory income tax rate of 42.9% (1995 – 42.7%; 1994 – 42.4%) for the following reasons:				
Income taxes at statutory rate	$1,012	42.9%	$871	$789
Increase (decrease) in income taxes resulting from:				
Lower average tax rate applicable to subsidiaries	(153)	(6.5)	(129)	(101)
Tax-exempt income from securities, primarily loan substitute securities	(17)	(0.7)	(22)	(28)
Other, net	38	1.6	35	(5)
	$ 880	37.3%	$755	$655

	1996	1995
The tax effects of timing differences which give rise to the net deferred income tax asset reported in "Other assets" are as follows:		
Deferred income tax asset:		
Allowance for credit losses	$ 646	$ 720
Tax loss carryforwards	139	125
Interest on impaired loans	106	130
Other	387	456
	1,278	1,431
Deferred income tax liability:		
Pension expense	(111)	(99)
Lease receivables	(15)	(30)
Other	(49)	(38)
	(175)	(167)
Net deferred income tax asset	$1,103	$1,264

The bank has determined that it is virtually certain that its net deferred income tax asset will be realized through a combination of future reversals of timing differences and taxable income.

Foreign earnings of certain subsidiaries would be taxed only upon their repatriation to Canada. The bank has not recognized a deferred tax liability for these undistributed earnings as management does not currently expect them to be repatriated. Taxes that would be payable if all foreign subsidiaries' accumulated unremitted earnings were repatriated are estimated at $524 million as at October 31, 1996.

Note 13. Earnings Per Common Share

Earnings per common share has been calculated after deducting preferred share dividends of $144 million (1995 – $164 million; 1994 – $168 million) and has been based on an average number of Common Shares outstanding of 314,120,924 (1995 and 1994 – 314,154,963).

Note 14. Postretirement Benefits

A reconciliation of the funded status of the bank's pension plans to the "prepaid pension cost" included in "Other assets" is as follows:

FUNDED STATUS OF PENSION PLANS FOR WHICH ASSETS EXCEED ACCUMULATED BENEFIT OBLIGATION

	1996	1995
Accumulated benefit obligation:		
Vested	$2,230	$2,041
Non-vested	65	51
	2,295	2,092
Effect of future salary increases	368	339
Projected benefit obligation	2,663	2,431
Pension fund assets, at adjusted market values*	2,952	2,684
Funding excess	289	253
Net unrecognized gains	(48)	(33)
Unrecognized transition funding excess	(8)	(15)
Other items, net	18	24
Prepaid pension cost	$ 251	$ 229

* *Pension fund assets are carried at adjusted market values, with adjustments to bring the value of the assets to market value being made over a three year period. The actual market value of the assets at October 31, 1996 was $3,158 million (1995 – $2,741 million). Pension fund assets at October 31, 1996 were comprised of equity securities (55%), bonds and debentures (41%), short-term investments (2%), and other investments (2%).*

The transition funding excess and net unrecognized gains are amortized to pension expense on a straight-line basis over the expected average remaining service lives of the employees covered by the plans. Assumptions, unchanged from 1995 and 1994, used to determine the present value of the projected benefit obligation included a weighted-average discount rate of 8.0% and a weighted-average rate of future salary increases of 5.1%. The assumed weighted-average rate of return on pension fund assets was 8.0%.

PENSION EXPENSE

	1996	1995	1994
Cost of benefits accrued during the year	$ 68	$ 64	$ 61
Interest expense on projected benefit obligation	185	171	158
Actual return on pension fund assets	(387)	(33)	(387)
Net amortization and deferral	192	(146)	212
Net pension expense	$ 58	$ 56	$ 44

Postretirement health and dental care and life insurance benefits expense was $9 million in 1996 (1995 – $8 million; 1994 – $7 million).

Note 15. Concentrations of Credit Risk

Concentrations of credit risk exist if a number of clients are engaged in similar activities, or are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographic location. Management does not believe that the concentrations described below are unusual.

On-balance sheet assets

Of the $189 billion in total earning assets as at September 30, 1996, 72% relate to the Canadian market and 12% relate to the United States market. No other country accounts for more than 4% of total earning assets.

Of the $131 billion in total loans as at September 30, 1996, 79% are to borrowers located in Canada, with the largest provincial concentrations being Ontario (39%) and British Columbia (14%). No industry accounts for more than 8% of total domestic loans.

Off-balance sheet financial instruments

Financial instruments with contractual amounts representing credit risk

Of the $116 billion in off-balance sheet financial instruments with contractual amounts representing credit risk as at October 31, 1996, approximately 48% relate to Canada, 28% to the United States and 19% to Europe.

Included in the $116 billion of these credit instruments are commitments to extend credit totalling $91 billion, of which 47% relate to Canada, 27% relate to the United States and 20% relate to Europe. Of the commitments to extend credit, the largest industry concentrations relate to financial institutions (16%), mining and energy (16%) and manufacturing (15%). No other industry sector exceeds 10% of the total.

Derivatives

The credit risk amount disclosed for derivatives is the accounting credit risk exposure which represents the current replacement value of all outstanding over-the-counter derivative contracts in a gain position without factoring in the impact of master netting agreements or the value of any collateral. These credit risk amounts totalled $13.7 billion and $13.4 billion as at October 31, 1996 and 1995 respectively. Based on the location of the ultimate counterparty, 45% of this credit risk amount relates to Europe, 21% to the United States, 21% to Canada and 12% to Asia Pacific.

The largest concentration by counterparty type of this credit risk exposure is with banks (73% of the total).

Note 16. Off-Balance Sheet Financial Instruments

FINANCIAL INSTRUMENTS WITH CONTRACTUAL AMOUNTS REPRESENTING CREDIT RISK

	1996	1995
Guarantees and standby letters of credit	$ 9,004	$ 7,403
Securities lending	15,457	11,667
Documentary and commercial letters of credit	879	836
Commitments to extend credit:		
Original term to maturity of one year or less	62,059	47,507
Original term to maturity of more than one year	28,863	34,703
Note issuance / revolving underwriting facilities	140	205
	$116,402	$102,321

Note 16. Off-Balance Sheet Financial Instruments (continued)

DERIVATIVES

NOTIONAL AMOUNTS	TERM TO MATURITY						1996			1995	
	UNDER 3 MONTHS	3–6 MONTHS	6–12 MONTHS	1–3 YEARS	3–5 YEARS	OVER 5 YEARS (1)	TOTAL	TRADING	OTHER THAN TRADING	TRADING	OTHER THAN TRADING
Over-the-counter (OTC) contracts:											
Interest rate contracts											
Forward rate agreements	$ 54,910	$ 15,945	$ 9,294	$ 1,472	$ 133	$ –	**$ 81,754**	**$ 80,957**	**$ 797**	$163,267	$ 887
Swap contracts	41,460	43,535	61,036	129,231	49,595	30,327	**355,184**	**328,676**	**26,508**	311,929	22,306
Options purchased	2,512	2,128	2,830	8,475	5,236	1,566	**22,747**	**20,398**	**2,349**	21,179	1,017
Options written	2,511	1,978	2,973	10,035	5,022	1,780	**24,299**	**24,215**	**84**	22,838	–
Foreign exchange contracts											
Spot and forward contracts	313,058	109,515	74,628	9,969	2,059	2,059	**511,288**	**505,432**	**5,856**	530,890	6,055
Cross currency swap contracts	–	237	113	864	873	592	**2,679**	**2,219**	**460**	2,186	314
Cross currency interest rate swap contracts	1,774	853	3,768	9,358	3,958	1,702	**21,413**	**19,185**	**2,228**	17,026	2,249
Options purchased	19,239	8,029	4,011	1,594	–	–	**32,873**	**32,699**	**174**	33,261	208
Options written	22,800	7,507	5,867	1,543	110	8	**37,835**	**37,703**	**132**	35,548	–
Other contracts (2)	7,556	775	909	392	204	155	**9,991**	**9,991**	**–**	3,153	–
Exchange-traded contracts:											
Interest rate contracts											
Futures – long positions	11,588	9,953	12,095	5,673	318	–	**39,627**	**39,352**	**275**	36,121	–
Futures – short positions	3,676	4,150	3,458	1,632	136	–	**13,052**	**13,040**	**12**	21,338	501
Options purchased	3,327	1,658	602	–	–	–	**5,587**	**5,587**	**–**	6,691	–
Options written	4,371	2,052	1,204	–	–	–	**7,627**	**7,627**	**–**	5,203	–
Foreign exchange contracts											
Futures – long positions	–	–	–	–	–	–	**–**	**–**	**–**	95	–
Futures – short positions	167	–	72	25	–	–	**264**	**264**	**–**	107	–
Options purchased	–	–	–	–	–	–	**–**	**–**	**–**	47	–
Options written	–	–	–	–	–	–	**–**	**–**	**–**	513	–
Other contracts (2)	1,942	128	12	4	–	–	**2,086**	**2,086**	**–**	127	–

GROSS REPLACEMENT COST (3)	TERM TO MATURITY						1996			1995	
	UNDER 3 MONTHS	3–6 MONTHS	6–12 MONTHS	1–3 YEARS	3–5 YEARS	OVER 5 YEARS (1)	TOTAL	TRADING	OTHER THAN TRADING	TRADING	OTHER THAN TRADING
Interest rate contracts											
Forward rate agreements	$ 40	$ 15	$ 14	$ 9	$ –	$ –	**$ 78**	**$ 78**	**$ –**	$ 100	$ 8
Swap contracts	543	368	454	2,116	1,339	1,195	**6,015**	**5,582**	**433**	4,395	351
Options purchased	6	3	10	59	55	48	**181**	**167**	**14**	159	4
Foreign exchange contracts											
Spot and forward contracts	3,315	1,524	906	108	3	1	**5,857**	**5,755**	**102**	6,377	114
Cross currency swap contracts	–	16	5	59	53	8	**141**	**120**	**21**	297	–
Cross currency interest rate swap contracts	96	29	106	540	141	16	**928**	**864**	**64**	770	225
Options purchased	216	97	54	28	–	–	**395**	**390**	**5**	541	2
Other contracts (2)	32	27	24	18	19	–	**120**	**120**	**–**	35	–
Total derivatives	$4,248	$2,079	$1,573	$2,937	$1,610	$1,268	**$13,715**	**$13,076**	**$639**	$12,674	$704
Less impact of master netting agreements:											
With intent to settle net or simultaneously (4)							**(82)**				
Without intent to settle net or simultaneously (5)							**(4,396)**				
Total							**$ 9,237**				

(1) Includes contracts maturing in over 10 years with a notional value of $3,403 million and related gross replacement cost of $128 million.
(2) Comprised of precious metals, commodity and equity-linked contracts.
(3) Represents the total current replacement value of all outstanding contracts in a gain position, without factoring in the impact of master netting agreements. Exchange-traded contracts are excluded from this presentation as the credit risk associated with these instruments is minimal since they are settled in cash on a daily basis. Written options are excluded as they represent obligations of the bank and as such do not attract credit risk.
(4) Impact of offsetting credit exposures on contracts where the bank has both a legally enforceable master netting agreement in place and intends to settle the contracts on either a net basis or simultaneously (1995 – $188 million).
(5) Additional impact of offsetting credit exposures on contracts where the bank has a legally enforceable master netting agreement in place but does not intend to settle the contracts on a net basis or simultaneously (1995 – $3,246 million).

Note 16. Off-Balance Sheet Financial Instruments (continued)

Financial instruments with contractual amounts representing credit risk

The primary purpose of these instruments is to ensure that funds are available to a customer as required. The bank's policy for requiring collateral security with respect to these instruments and the types of collateral security held are generally the same as for loans, as described in Note 1.

Guarantees and standby letters of credit, which represent irrevocable assurances that the bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. *Documentary and commercial letters of credit,* which are written undertakings by the bank on behalf of a customer authorizing a third party to draw drafts on the bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and, therefore, have significantly less risk than unsecured obligations. Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the bank does not generally expect the third party to draw funds under the agreement.

In *securities lending* transactions, the bank acts as an agent for the owner of a security, who agrees to lend the security to a borrower for a fee, under the terms of a pre-arranged contract. The borrower must fully collateralize the security loan at all times. The bank has two types of securities lending arrangements: lending with and without credit or market risk indemnification. In securities lending without indemnification, the bank bears no risk of loss. For transactions in which the bank provides an indemnification, risk of loss occurs if the borrower defaults and the value of the collateral declines concurrently. The credit risk associated with these transactions is considered small as borrowers must meet specific credit standards and must fully collateralize the security loan on a daily basis.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, bankers' acceptances, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some credit risk associated with the remainder of commitments, the risk is viewed as modest since it results first from the possibility of unused portions of loan authorizations being drawn by the customer and, second, from these drawings subsequently not being repaid as due. The bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

Revolving underwriting facilities are arrangements whereby a customer issues short-term notes supported by an undertaking by the bank that if the customer is unable to issue the notes at a predetermined price, the bank will buy them at a prescribed price or guarantee the availability of funds by providing standby credit. *Note issuance facilities* are similar to revolving underwriting facilities, except that the bank underwrites on a "best efforts basis" and is not obligated to buy unsold notes or provide standby credit. The risks associated with note issuance facilities and revolving underwriting facilities are comparable to those of longer-term commitments to extend credit.

Derivatives

The bank deals in interest rate, foreign exchange, and equity and commodity derivatives to earn fees, and generate trading revenues and also utilizes derivatives to manage its own asset/liability exposures.

The table on the previous page provides the notional amounts of the bank's derivatives. Notional amounts serve as a point of reference for calculating payments and are a common measure of business volume. However, notional amounts do not represent the credit or market risk associated with these contracts nor do they reflect the extent to which positions offset one another.

Gross replacement cost is the amount of loss that the bank would suffer if every counterparty to which the bank was exposed were to default at once (i.e. the current replacement value of all outstanding contracts in a gain position). These amounts, detailed on the table on the previous page, do not factor in the impact of master netting agreements nor do they consider the value of any collateral. The bank's credit exposure to a counterparty from a derivative transaction is composed of the gross replacement cost plus an estimate of the potential change in that market value over the remaining period of time until the transaction would normally terminate. Credit exposure is managed as part of the overall borrowing limits granted to customers. The bank attempts to limit its credit exposure by dealing with counterparties believed to be creditworthy and by encouraging counterparties to enter into master netting agreements.

Market risk is the risk of loss that results from changes in interest rates, foreign exchange rates, equity and commodity prices. The bank manages its exposure to market risks through the use of value-at-risk methodology, risk limits, gap analysis and simulation modelling.

Interest Rate Contracts include interest rate swaps, interest rate futures, forward rate agreements and interest rate options.

Interest rate swaps are transactions in which two parties exchange interest flows on a specified notional amount for a predetermined period based on agreed-upon fixed and floating rates. Notional amounts are not exchanged.

Interest rate futures are contractual obligations to buy or sell a financial instrument on a future date at a specified price established on an organized exchange. Since futures contracts are collateralized by cash or marketable securities and changes in the futures contract value are settled daily with the exchange, the credit risk is negligible.

Forward rate agreements are effectively tailor-made interest rate futures, negotiated between two counterparties, which call for a cash settlement at a future date for the difference between a contractual rate of interest and the current market rate, based on a notional amount.

Note 16. Off-Balance Sheet Financial Instruments (continued)

Interest rate options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option) at or by a set date, a specific amount of a financial instrument at a predetermined price. In consideration for the assumption of interest rate risk, the seller receives a premium from the purchaser. Options may be either exchange-traded or negotiated between the bank and a customer. The credit risk associated with exchange-traded options is negligible.

Foreign Exchange Contracts include spot and forward contracts, foreign currency futures, foreign currency options, cross currency interest rate swaps and cross currency swaps.

Foreign exchange forward contracts represent commitments to exchange two currencies at a specified future date based on a rate agreed to by both parties at the inception of the contract. Foreign exchange spot contracts are similar to forward contracts except that delivery is within two business days of the contract date. The bank enters into these contracts to service the needs of customers, as a market maker in foreign exchange and to manage its own asset / liability exposures.

Foreign currency futures are contractual obligations to buy or sell a foreign currency on a future date at a specified price established on an organized exchange. Similar to interest rate futures, they are subject to daily settlement for any change in market value.

Foreign currency options, which can be exchange-traded or entered into directly by the bank and a customer, are similar to interest rate option contracts, except that they are based on currencies.

Cross currency interest rate swaps are transactions in which two parties exchange currencies and interest rates on a specified notional amount for a predetermined period. The notional amount is generally exchanged at inception and re-exchanged at maturity. Cross currency swaps are transactions in which fixed or floating interest payments in one currency are made against receipt of fixed or floating interest payments in another.

Other contracts is comprised of precious metals, commodity and equity-linked contracts. Precious metal contracts include primarily gold and silver forwards and futures. Commodity products include oil and gas swaps, options, and futures. These contracts are similar to interest rate contracts except they are based on commodity prices. Equity-linked contracts include stock index futures, equity options and equity swaps. Stock index instruments are contracts which pay or receive cash flows based on the increase or decrease in the underlying index.

Note 17. Fair Value of Financial Instruments

ON-BALANCE SHEET FINANCIAL INSTRUMENTS

	1996			1995		
	BOOK VALUE	FAIR VALUE	FAIR VALUE OVER BOOK VALUE	BOOK VALUE	FAIR VALUE	FAIR VALUE OVER BOOK VALUE
Assets						
Cash resources	$ 23,567	$ 23,567	$ –	$ 17,710	$ 17,710	$ –
Securities	43,490	44,110	620	32,705	32,936	231
Loans	135,791	137,087	1,296	119,577	119,859	282
Customers' liability under acceptances	7,423	7,423	–	6,300	6,300	–
Other assets	4,205	4,205	–	3,664	3,664	–
Liabilities						
Deposits	161,817	163,350	1,533	143,491	144,341	850
Acceptances	7,423	7,423	–	6,300	6,300	–
Obligations related to assets sold under repurchase agreements	16,526	16,526	–	4,090	4,090	–
Obligations related to securities sold short	8,331	8,331	–	7,128	7,128	–
Other liabilities	10,812	10,812	–	10,077	10,077	–
Subordinated debentures	3,627	3,935	308	3,534	3,715	181

The following methods and assumptions were used to estimate the fair value of the on-balance sheet financial instruments:

Financial instruments valued at carrying value: Due to their short-term maturity, the carrying values of certain on-balance sheet financial instruments were assumed to approximate their fair values. These financial instruments include; "Cash resources", "Customers' liability under acceptances", "Other assets", "Acceptances", "Obligations related to assets sold under repurchase agreements", "Obligations related to securities sold short" and "Other liabilities".

Securities: The estimated fair values of securities are provided in Note 3 to the financial statements. These are based on quoted market prices, when available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities.

Loans: For certain variable rate loans that reprice frequently, estimated fair values are assumed to be equal to the carrying values. The fair values of other loans are estimated using a discounted cash flow calculation that uses market interest rates currently charged for similar new loans at October 31 to expected maturity amounts (adjusted for prepayments where appropriate).

Deposit liabilities: The fair values of deposits with no stated maturity are assumed to be equal to their carrying values. The estimated fair values of fixed rate deposits are determined by discounting the contractual cash flows, using market interest rates currently offered for deposits of similar remaining maturities.

Subordinated debentures: The fair values of the bank's debentures are based on quoted market prices for similar issues, or current rates offered to the bank for debt of the same remaining maturity.

Note 17. Fair Value of Financial Instruments (continued)

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

GROSS FAIR VALUE	1996				1995	
	AVERAGE FAIR VALUE FOR THE YEAR ENDED (1)		PERIOD END FAIR VALUE		PERIOD END FAIR VALUE	
	POSITIVE	NEGATIVE	POSITIVE	NEGATIVE	POSITIVE	NEGATIVE
Derivative financial instruments held or issued for trading purposes						
Interest rate contracts						
Forward rate agreements	$ 75	$ 81	$ 78	$ 85	$ 100	$ 108
Swap contracts	4,649	4,807	5,582	5,547	4,395	4,778
Options purchased	173	–	167	–	159	–
Options written	–	153	–	149	–	128
Total interest rate contracts	4,897	5,041	5,827	5,781	4,654	5,014
Foreign exchange contracts						
Spot and forward contracts	4,574	4,921	5,755	6,661	6,377	6,566
Cross currency swap contracts	176	59	120	89	297	52
Cross currency interest rate swap contracts	735	387	864	390	770	422
Options purchased	381	–	390	–	541	–
Options written	–	407	–	445	–	574
Total foreign exchange contracts	5,866	5,774	7,129	7,585	7,985	7,614
Other	83	92	120	165	35	59
Gross fair values – Trading	**$10,846**	**$10,907**	**$13,076**	**$13,531**	$12,674	$12,687
Derivative financial instruments held or issued for other than trading purposes						
Interest rate contracts						
Forward rate agreements			$ –	$ 1	$ 8	$ 2
Swap contracts			433	558	351	293
Options purchased			14	–	4	–
Options written			–	5	–	–
Total interest rate contracts			447	564	363	295
Foreign exchange contracts						
Spot and forward contracts			102	40	114	40
Cross currency swap contracts			21	–	–	11
Cross currency interest rate swap contracts			64	73	225	80
Options purchased			5	–	2	–
Options written			–	2	–	–
Total foreign exchange contracts			192	115	341	131
Gross fair values – Other than trading			$ 639	$ 679	$ 704	$ 426
Total gross fair values			$13,715	$14,210	$13,378	$13,113
Less impact of master netting agreements:						
With intent to settle net or simultaneously *(2)*			(82)	(82)	(188)	(188)
Without intent to settle net or simultaneously *(3)*			(4,396)	(4,396)	(3,246)	(3,246)
Total			$ 9,237	$ 9,732	$ 9,944	$ 9,679

(1) Average fair value amounts are calculated based on monthly balances.
(2) Impact of offsetting credit exposures on contracts where the bank has both a legally enforceable master netting agreement in place and intends to settle the contracts on either a net basis or simultaneously.
(3) Additional impact of offsetting credit exposures on contracts where the bank has a legally enforceable master netting agreement in place but does not intend to settle the contracts on a net basis or simultaneously.

The following methods and assumptions were used to estimate the fair value of the off-balance sheet financial instruments:

Off-balance sheet financial instruments with contractual amounts representing credit risk: The commitments to extend credit are primarily variable rate and therefore do not expose the bank to interest rate risk.

Derivatives: The fair values of derivatives are presented on a gross basis before the impact of legally enforceable master netting agreements. The fair values of derivatives are determined using various methodologies including: quoted market prices, where available; prevailing market rates for instruments with similar characteristics and maturities; net present value analysis or other pricing models as appropriate.

Note 17. Fair Value of Financial Instruments (continued)

The estimated fair value amounts are designed to approximate amounts at which these instruments could be exchanged in a current transaction between willing parties, however, many of the financial instruments lack an available trading market. Therefore, fair values are based on estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk. Also, the estimated fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments such as "premises and equipment". In addition, the values of other non-financial assets and liabilities, such as intangible values of customer relationships and leases, have been excluded. As such, the derived fair value estimates cannot be compared to those of other financial institutions. Furthermore, due to the use of subjective judgement and uncertainties, the aggregate fair value amount should not be interpreted as being realizable in an immediate settlement of the instruments.

Note 18. Commitments and Contingent Liabilities

Lease commitments

The bank leases many properties under standard real estate leases which include renewal options and escalation clauses. Minimum future rental commitments for buildings under long-term non-cancellable leases for the next five years are shown below. Annual rental commitments after 2001 are in decreasing amounts.

1997	$288
1998	256
1999	229
2000	188
2001	143

Building rent expense, net of property rental income, included in the Consolidated Statement of Income for the year ended October 31, 1996 was $275 million (1995 – $251 million; 1994 – $240 million).

Litigation

Various legal proceedings are pending which challenge certain practices or actions of the bank and its subsidiaries. Many of these proceedings are loan-related and are in reaction to steps taken by the bank and its subsidiaries to collect delinquent loans and enforce rights in collateral securing such loans. Management considers that the aggregate liability resulting from these proceedings will not be material.

Pledged assets

Securities with a carrying value of $29.1 billion have been pledged as collateral for various types of funding transactions including obligations related to assets sold under repurchase agreements, obligations related to securities sold short and secured liabilities of subsidiaries other than deposits. In addition, assets with a carrying value of $1.2 billion have been deposited as collateral in order to participate in clearing and payment systems and depositories or to have access to the facilities of central banks in foreign jurisdictions.

Note 19. Subsequent Events

(i) Richardson Greenshields Limited

On August 29, 1996, the bank entered into an agreement to acquire all of the outstanding shares of Richardson Greenshields Limited, a Canadian investment dealer, on November 1, 1996, for a total purchase consideration of $480 million. This consideration consisted of $197 million of cash and $283 million of Royal Bank DS Holding Inc. (a wholly-owned subsidiary of the bank) shares comprised of the following:

- $44 million of Class A shares, exchanged on a one-for-one basis on November 1, 1996 into 1.27 million Royal Bank of Canada common shares based on a value of $34.26 per common share as established on August 29, 1996;
- $159 million of Class B shares exchangeable, if certain conditions are met, on a one-for-one basis commencing November 1, 1998 into 4.65 million Royal Bank of Canada common shares, based upon a per share value of $34.26. The bank may effect the exchange at any time if certain conditions are met;
- $80 million of Class C shares, exchangeable into Royal Bank of Canada common shares upon the resolution of certain contingent liabilities of Richardson Greenshields Limited on or after November 1, 1998. The number of Royal Bank of Canada common shares to be issued will be determined based on the bank's average common share price during the twenty days prior to the date the exchange is made.

The acquisition, accounted for using the purchase method, is summarized as follows:

Fair value of assets acquired		
Cash resources and securities	$ 85	
Assets purchased under reverse repurchase agreements	1,109	
Amounts receivable from brokers, dealers, and clients	471	
Other assets	53	$1,718
Liabilities assumed		
Obligations related to securities sold short	$ 130	
Amounts payable to brokers, dealers, and clients	771	
Other liabilities	565	$1,466
Fair value of net assets acquired as at November 1, 1996		252
Goodwill		228
Total purchase consideration		$ 480

The determination of purchase consideration is contingent upon the resolution of certain contingent liabilities of Richardson Greenshields Limited. In accordance with the terms of the purchase agreement, any settlement costs with respect to these contingent liabilities will be borne by the bank and will then reduce the stated value of the Royal Bank DS Holding Inc. Class C shares by an amount equivalent to the after-tax cost of the settlement (up to a maximum of $80 million). The settlement costs are not currently determinable but are not expected to exceed $80 million.

The excess of the cost of the investment over the fair value will be recorded as goodwill, and will be amortized over 15 years.

Estimated one-time restructuring costs related to the acquisition are $25 million after-tax.

(ii) RBC Dominion Securities Group

On November 1, 1996, the bank acquired all RBC Dominion Securities Limited common shares held by its minority shareholders for cash and 480 thousand of Royal Bank common shares. The RBC Dominion Securities Group economic entity was then formed, comprised of RBC Dominion Securities Limited (including the business of Richardson Greenshields Limited) and Royal Bank of Canada's Trading operations.

In conjunction with its formation, certain key employees of the RBC Dominion Securities Group economic entity purchased Participating Preferred shares of RBC Dominion Securities Limited. The issuance of these shares will entitle the holders to participate in 20% of future profits generated by the RBC Dominion Securities Group economic entity and will increase non-controlling interest from $93 million to $153 million.

Note 20. Reconciliation of Canadian and United States Generally Accepted Accounting Principles

The consolidated financial statements of the bank are prepared in accordance with Canadian generally accepted accounting principles (GAAP), including the accounting requirements of the Superintendent of Financial Institutions Canada. As required by the United States Securities and Exchange Commission, material differences between Canadian and United States GAAP are described below.

Consolidated Balance Sheet

There are no material differences, as at October 31, 1996 and 1995, between assets and liabilities as reported in the Consolidated Balance Sheet prepared under Canadian GAAP and those amounts which would be reported under United States GAAP except for the effects of adopting Statement of Financial Accounting Standard (SFAS) No. 115 "Accounting for Certain Investments in Debt and Equity Securities" and Financial Accounting Standard Board (FASB) Interpretation No. 39 "Offsetting of Amounts Related to Certain Contracts".

Under SFAS No. 115, investments in equity securities that have readily determinable fair values and all investments in debt securities must be classified according to one of the following three categories:

1. *Held to Maturity:* Securities that the bank has the positive intent and ability to hold to maturity are reported at amortized cost.
2. *Trading Securities:* Securities that are bought and held principally for resale in the near term are reported at fair value, with unrealized gains and losses included in earnings.
3. *Available for Sale:* Securities not classified as either held to maturity or trading are classified as available for sale and are reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of shareholders' equity.

Under Canadian GAAP, the bank classifies securities held as either investment account or trading account securities. Investment account securities are carried at amortized cost and trading account securities are recorded at estimated current market value. For United States reporting purposes, primarily all investment account securities would be classified as *"Available for Sale"* and reported at estimated fair value.

Had the bank reported its investment account securities in accordance with United States GAAP as at October 31, 1996, securities would have increased by $611 million and deferred income taxes (included in "Other assets") would have decreased by $262 million. The after-tax net unrealized gain of $349 million would have been reported as a separate component of shareholders' equity. Gross realized gains and gross realized losses from disposal of available for sale securities were $153 million and $81 million, respectively, for the year ended October 31, 1996.

Under FASB Interpretation No. 39, assets and liabilities should not be offset on the balance sheet unless specific criteria are met. The most significant impact of this requirement would be that gross unrealized gains and losses on derivatives would be reported as assets and liabilities respectively. However, unrealized gains and losses on contracts with the same counterparty would be permitted to be netted if the contracts are executed under legally enforceable master netting agreements. The bank presently records unrealized gains and losses on derivatives on a net basis on the balance sheet.

Had the bank reported its unrealized gains and losses on derivative contracts in accordance with United States GAAP as at October 31, 1996, and had it elected to also reflect the impact of master netting agreements, both assets and liabilities would increase by $9.2 billion (1995 – $9.6 billion).

Consolidated Statement of Income

Had the bank reported in accordance with United States GAAP, the net income as reported in the Consolidated Statement of Income would have been $1,330 million and earnings per share would have been reported as $3.78.

The $100 million reduction in net income and related decrease of $0.31 in earnings per share would have resulted primarily from the adoption of SFAS No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions", and SFAS No. 114 and 118, "Accounting by Creditors for Impairment of a Loan" for United States reporting.

Under SFAS No. 106, which must be implemented for the year ended October 31, 1996 for United States reporting purposes, the bank is required to accrue the costs of postretirement benefits other than pensions over the working lives of employees in a similar manner to pension costs. These benefits are primarily comprised of life insurance, dental care and supplementary health care coverage (in excess of coverage provided under the Canadian health insurance system). Under Canadian GAAP, these costs are charged to income as incurred.

Had the bank accrued for the annual cost of providing postretirement benefits other than pensions in excess of the expenditures already recognized under Canadian GAAP, net income before tax would have decreased by $48 million (including the amortization over an 18 year period of the actuarially-determined transitional obligation of $303 million) and net income after tax would have decreased by $27 million.

Under SFAS No. 114 and 118, which became effective in the year commencing November 1, 1995, the bank is required to measure impaired loans based on the present value of expected future cash flows discounted at the interest rate inherent in the original loan. As indicated in Note 5, the bank has adopted a similar Canadian standard commencing November 1, 1995. However, the initial cumulative impact of adopting the United States standard must be charged to earnings rather than as a $75 million after-tax charge to opening retained earnings as was done for Canadian GAAP. On a going forward basis, the methodologies used to establish the provision for credit losses under Canadian and United States GAAP are expected to produce similar results.

Had the bank adopted SFAS No. 114 and 118 standards as at November 1, 1995, the provision for credit losses would have increased by $130 million and net income after tax would have decreased by $75 million.

Note 20. Reconciliation of Canadian and United States Generally Accepted Accounting Principles (continued)

Revenues and expenses reported in the Consolidated Statement of Income are generally classified in the same manner as under United States GAAP except that gains and losses on investment account and trading account securities and writedowns of investment account securities would be reported in "Other income" under United States GAAP. These amounts are included in "Interest income" under Canadian GAAP.

Consolidated Statement of Changes in Shareholders' Equity

There are no material differences between the Consolidated Statement of Changes in Shareholders' Equity as reported under Canadian GAAP for the years ended October 31, 1996, 1995 and 1994 and as reported under United States GAAP, except for the 1996 $349 million (1995 – $126 million) after-tax net unrealized gain on investment account securities, in accordance with SFAS No. 115.

Consolidated Statement of Changes in Financial Position

There are no material differences between the Consolidated Statement of Changes in Financial Position as reported under Canadian GAAP for the years ended October 31, 1996, 1995 and 1994 and as would be reported under United States GAAP, except for the disclosure of supplementary information relating to interest paid in 1996 of $8.7 billion (1995 – $7.3 billion; 1994 – $6.4 billion) and cash income taxes paid of $429 million in 1996 (1995 – $318 million; 1994 – $407 million).

Recent United States generally accepted accounting standards not yet adopted by the bank

Statement of Financial Accounting Standards No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of".

Under this new standard, which must be implemented in the year ending October 31, 1997, the bank will be required to assess for the impairment of long-lived assets, certain identifiable intangibles, and goodwill related to those assets to be held and used and for long-lived assets and certain identifiable intangibles to be disposed of. The impact of adopting the new standard has not yet been determined.

Statement of Financial Accounting Standards No. 122 "Accounting for Mortgage Servicing Rights".

Under this new standard, which must be implemented in the year ending October 31, 1997, the bank will be required to establish a value for the rights to service mortgage loans for others, whether or not loans were originated or purchased for resale. In addition, the standard will require the bank to assess all capitalized mortgage servicing rights for impairment based on their fair values. The impact of adopting the new standard is not expected to have a material effect on the financial statements.

Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation".

This new standard, which must be implemented in the year ending October 31, 1997, recommends using fair value to account for stock-based employee compensation agreements, rather than intrinsic value currently required by Accounting Principles Board No. 25 "Accounting for Stock Issued to Employees". If APB No. 25 continues to be applied, supplemental disclosure of proforma net income and earnings per share is required as if the fair value based accounting method recommended in the Statement had been used to account for the stock-based compensation cost.

Transactions with other than employees, in which goods and services are the consideration received for the issuance of equity instruments, are required to be accounted for based on the fair value of the consideration received.

The impact of adopting the new standard is not expected to have a material effect on the financial statements.

Statement of Financial Accounting Standards No. 125 "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities".

This new standard, which must be implemented for transfers and extinguishments occuring after December 31, 1996, requires accounting for transfer of financial assets, in which the transferor surrenders control over the financial assets, as a sale to the extent that consideration other than beneficial interests in the transferred assets is received in exchange. The standard also requires a debtor to derecognize a liability only if it has been extinguished. The impact of adopting the new standard has not yet been determined.

CONSOLIDATED BALANCE SHEET

AS AT OCTOBER 31 ($ MILLIONS)	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
Assets											
Cash resources	$ 23,567	$ 17,710	$ 16,449	$ 10,874	$ 10,938	$ 8,820	$ 8,763	$ 8,187	$ 10,093	$ 13,810	$14,908
Securities	43,490	32,705	27,695	24,011	16,146	13,436	9,449	7,989	8,872	8,586	10,244
Loans											
Residential mortgages	48,056	45,088	44,086	43,738	32,607	29,103	25,733	22,530	19,502	16,184	12,510
Consumer instalment and other personal loans	18,361	16,833	16,437	16,418	15,396	14,728	14,392	13,504	12,376	10,215	8,761
Credit card loans	3,522	3,435	3,321	3,090	2,532	2,562	2,434	2,108	1,811	1,529	1,359
Business and government loans	54,406	49,630	46,283	47,919	48,995	51,351	50,135	45,097	44,092	41,365	43,304
Assets purchased under reverse repurchase agreements	11,446	4,591	5,259	5,304	607	600	–	–	–	–	–
	135,791	119,577	115,386	116,469	100,137	98,344	92,694	83,239	77,781	69,293	65,934
Customers' liability under acceptances	7,423	6,300	6,205	6,302	5,737	7,210	10,369	10,701	9,539	7,226	5,438
Premises and equipment	1,785	1,870	1,975	2,057	1,914	1,921	1,800	1,509	1,335	1,253	1,168
Other assets	5,894	5,490	5,369	5,228	3,421	2,621	2,863	3,035	2,434	2,002	1,915
	$217,950	$183,652	$173,079	$164,941	$138,293	$132,352	$125,938	$114,660	$110,054	$102,170	$99,607
Liabilities and shareholders' equity											
Deposits											
Consumers	$ 90,774	$ 89,929	$ 85,214	$ 84,696	$ 67,648	$ 64,332	$ 60,577	$ 53,851	$ 46,701	$ 42,530	$41,031
Businesses and governments	47,799	39,900	36,422	33,781	30,245	29,740	27,335	25,242	27,924	28,021	26,003
Banks	23,244	13,662	14,179	11,922	14,329	10,950	11,256	10,093	12,613	15,260	17,219
	161,817	143,491	135,815	130,399	112,222	105,022	99,168	89,186	87,238	85,811	84,253
Acceptances	7,423	6,300	6,205	6,302	5,737	7,210	10,369	10,701	9,539	7,226	5,438
Obligations related to assets sold under repurchase agreements	16,526	4,090	5,341	2,533	787	641	29	299	188	49	48
Obligations related to securities sold short	8,331	7,128	5,569	5,362	3,628	2,650	1,523	989	620	55	52
Other liabilities	10,812	10,077	8,083	8,973	5,286	5,991	6,096	5,584	5,382	3,144	3,086
Subordinated debentures	3,627	3,534	3,477	3,442	3,127	3,076	2,299	2,118	2,000	1,521	2,068
	208,536	174,620	164,490	157,011	130,787	124,590	119,484	108,877	104,967	97,806	94,945
Shareholders' equity											
Capital stock											
Preferred	1,752	1,990	2,266	2,248	1,594	1,661	1,146	1,151	954	1,012	1,025
Common	2,876	2,910	2,910	2,910	2,910	2,726	2,450	2,309	1,961	1,545	1,193
Retained earnings	4,786	4,132	3,413	2,772	3,002	3,375	2,858	2,323	2,172	1,807	2,444
	9,414	9,032	8,589	7,930	7,506	7,762	6,454	5,783	5,087	4,364	4,662
	$217,950	$183,652	$173,079	$164,941	$138,293	$132,352	$125,938	$114,660	$110,054	$102,170	$99,607

CONSOLIDATED STATEMENT OF INCOME											
FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS)	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
Interest income											
Loans	**$ 9,856**	$10,057	$ 8,899	$ 8,247	$ 8,957	$10,670	$11,238	$10,045	$7,915	$6,769	$7,061
Securities	**2,675**	2,282	1,818	1,650	1,174	1,087	1,136	1,007	706	785	856
Deposits with banks	**922**	817	479	321	421	613	666	676	704	881	1,094
	13,453	13,156	11,196	10,218	10,552	12,370	13,040	11,728	9,325	8,435	9,011
Interest expense											
Deposits	**7,115**	7,362	5,477	4,995	5,868	7,940	9,081	7,789	5,871	5,304	5,976
Subordinated debentures	**308**	320	268	245	257	271	220	206	142	136	172
Other	**1,140**	807	783	585	337	209	145	108	31	42	38
	8,563	8,489	6,528	5,825	6,462	8,420	9,446	8,103	6,044	5,482	6,186
Net interest income	**4,890**	4,667	4,668	4,393	4,090	3,950	3,594	3,625	3,281	2,953	2,825
Other income	**3,021**	2,610	2,674	2,096	1,940	1,767	1,671	1,559	1,292	1,082	852
Gross revenues	**7,911**	7,277	7,342	6,489	6,030	5,717	5,265	5,184	4,573	4,035	3,677
Provision for credit losses	**440**	580	820	1,750	2,050	605	420	1,380	750	900	975
	7,471	6,697	6,522	4,739	3,980	5,112	4,845	3,804	3,823	3,135	2,702
Non-interest expenses											
Human resources	**2,851**	2,563	2,675	2,310	2,160	2,072	1,889	1,706	1,467	1,327	1,254
Occupancy	**507**	473	500	444	429	394	334	302	284	248	230
Equipment	**492**	506	460	396	377	335	287	238	204	181	168
Communications	**523**	461	450	377	372	372	362	321	266	227	213
Restructuring	**–**	–	–	410	130	–	–	–	–	–	–
Other	**739**	654	576	478	449	445	444	389	351	364	328
	5,112	4,657	4,661	4,415	3,917	3,618	3,316	2,956	2,572	2,347	2,193
Net income before income taxes	**2,359**	2,040	1,861	324	63	1,494	1,529	848	1,251	788	509
Income taxes	**880**	755	655	(5)	(65)	495	555	305	530	273	54
Net income before non-controlling interest	**1,479**	1,285	1,206	329	128	999	974	543	721	515	455
Non-controlling interest in net income of subsidiaries	**49**	23	37	29	21	16	9	14	9	3	3
Net income before special provision for losses	**1,430**	1,262	1,169	300	107	983	965	529	712	512	452
Special provision for losses	**–**	–	–	–	–	–	–	–	–	(800)	–
Net income (loss)	**$ 1,430**	$ 1,262	$ 1,169	$ 300	$ 107	$ 983	$ 965	$ 529	$ 712	$ (288)	$ 452

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS)	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
Preferred shares											
Balance at beginning of year	$1,990	$2,266	$2,248	$1,594	$1,661	$1,146	$1,151	$ 954	$1,012	$1,025	$ 877
Issue of preferred shares	–	–	–	612	–	526	–	400	–	–	150
Preferred shares converted	–	–	–	–	–	–	–	(187)	(44)	–	–
Preferred shares redeemed and purchased for cancellation	(237)	(272)	–	–	(102)	(5)	(4)	(11)	(5)	(5)	(4)
Translation adjustment on shares issued in foreign currency	(1)	(4)	18	42	35	(6)	(1)	(5)	(9)	(8)	2
Balance at end of year	$1,752	$1,990	$2,266	$2,248	$1,594	$1,661	$1,146	$1,151	$ 954	$1,012	$1,025
Common shares											
Balance at beginning of year	$2,910	$2,910	$2,910	$2,910	$2,726	$2,450	$2,309	$1,961	$1,545	$1,193	$ 962
Issue of common shares	–	–	–	–	184	276	141	348	416	352	231
Purchase for cancellation	(34)	–	–	–	–	–	–	–	–	–	–
Balance at end of year	$2,876	$2,910	$2,910	$2,910	$2,910	$2,726	$2,450	$2,309	$1,961	$1,545	$1,193
Retained earnings											
Balance at beginning of year	$4,132	$3,413	$2,772	$3,002	$3,375	$2,858	$2,323	$2,172	$1,807	$2,444	$2,329
Cumulative effect of adoption of Impaired Loans accounting standard	(75)	–	–	–	–	–	–	–	–	–	–
Balance at beginning of year, as restated	4,057	3,413	2,772	3,002	3,375	2,858	2,323	2,172	1,807	2,444	2,329
Net income (loss)	1,430	1,262	1,169	300	107	983	965	529	712	(288)	452
Dividends – preferred	(144)	(164)	(168)	(154)	(123)	(103)	(96)	(65)	(80)	(79)	(76)
– common	(418)	(371)	(364)	(364)	(361)	(352)	(337)	(313)	(266)	(236)	(205)
Premium paid on common shares purchased for cancellation	(136)	–	–	–	–	–	–	–	–	–	–
Income taxes	–	–	–	–	–	–	–	–	–	(29)	(35)
Share issue costs	–	–	–	(11)	–	(8)	–	(6)	–	–	(3)
Unrealized foreign currency translation gains and losses	(3)	(8)	4	(1)	4	(3)	3	6	(1)	(5)	(18)
Balance at end of year	$4,786	$4,132	$3,413	$2,772	$3,002	$3,375	$2,858	$2,323	$2,172	$1,807	$2,444
Shareholders' equity at end of year	$9,414	$9,032	$8,589	$7,930	$7,506	$7,762	$6,454	$5,783	$5,087	$4,364	$4,662

RISK PROFILE

AS AT OCTOBER 31 ($ MILLIONS)	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
Gross impaired loans											
Beginning of year	$2,944	$4,424	$7,582	$7,056	$3,924	$4,203	$3,516	$3,549	$3,973	$3,333	$3,328
Net additions/reductions	384	(255)	(1,128)	1,643	3,639	909	1,822	1,063	474	1,610	883
Writeoffs and translations	(952)	(1,225)	(2,030)	(1,117)	(507)	(1,188)	(1,135)	(1,096)	(898)	(970)	(878)
End of year	$2,376	$2,944	$4,424	$7,582	$7,056	$3,924	$4,203	$3,516	$3,549	$3,973	$3,333
Allowance for credit losses											
Specific provision	$1,091	$1,439	$1,962	$2,667	$1,867	$ 449	$ 451	$ 440	$ 582	$ 725	$ 553
Country Risk Provision*	61	57	69	1,107	1,383	1,459	2,012	2,453	1,940	1,606	486
General Provision	700	300	300	550	325	–	–	–	–	–	–
Total	$1,852	$1,796	$2,331	$4,324	$3,575	$1,908	$2,463	$2,893	$2,522	$2,331	$1,039
Net impaired loans											
Total	$ 524	$ 1,148	$ 2,093	$ 3,258	$ 3,481	$ 2,016	$ 1,740	$ 623	$ 1,027	$ 1,642	$ 2,294
Total loans and acceptances	143,214	125,877	121,591	122,771	105,874	105,554	103,063	93,940	87,320	76,519	71,372
As a percentage of total loans and acceptances	.4%	.9%	1.7%	2.7%	3.3%	1.9%	1.7%	.7%	1.2%	2.1%	3.2%
Provision for credit losses											
Specific provision	$340	$580	$1,070	$1,775	$2,025	$ 705	$420	$ 280	$390	$ 900	$710
Country risk provision	(300)	–	–	(250)	(300)	(100)	–	1,100	360	1,400	265
General provision	400	–	(250)	225	325	–	–	–	–	–	–
Total	$440	$580	$ 820	$1,750	$2,050	$ 605	$420	$1,380	$750	$2,300	$975
Average loans and acceptances	$130,378	$121,459	$121,741	$108,562	$106,376	$105,231	$98,414	$89,772	$80,129	$73,938	$69,841
As a percentage of average loans and acceptances	.34%	.48%	.67%	1.61%	1.93%	.57%	.43%	1.54%	.94%	3.11%	1.40%
Coverage ratio, excluding LDCs	77%	60%	52%	52%	41%	18%	25%	41%	36%	29%	19%

** The allowance for credit losses is shown net of that portion of the country risk provision that is in excess of impaired LDC loans in the amount of $383 million (1995 – $873 million; 1994 – $871 million; 1993 – $ nil; 1992 – $ nil; 1991 – $50 million; 1990 – $ nil; 1989 – $149 million; 1988 – $114 million; 1987 – $326 million; 1986 – $142 million).*

QUARTERLY HIGHLIGHTS

($ MILLIONS, EXCEPT PER SHARE AMOUNTS; TAXABLE EQUIVALENT BASIS)	1996				1995			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Statement of Income								
Domestic								
Net interest income	$1,124	$1,031	$1,001	$1,006	$1,025	$1,014	$ 969	$ 968
Other income	673	617	588	558	521	539	470	484
Provision for credit losses	(409)	(102)	(114)	(115)	(90)	(111)	(126)	(157)
Non-interest expenses	(1,241)	(1,111)	(1,067)	(1,028)	(1,078)	(1,033)	(945)	(946)
Income taxes	(94)	(194)	(181)	(198)	(172)	(183)	(171)	(154)
Non-controlling interest	(16)	(9)	(13)	(8)	(6)	(7)	(5)	(3)
Net income	$ 37	$ 232	$ 214	$ 215	$ 200	$ 219	$ 192	$ 192
Average assets *($ billions)*	$152.2	$151.8	$147.1	$143.1	$140.9	$139.0	$136.8	$137.8
International								
Net interest income	$ 181	$ 195	$ 186	$ 196	$ 220	$ 172	$ 174	$ 165
Other income	179	140	128	138	141	132	161	162
Provision for credit losses	299	(8)	4	5	(50)	(29)	(14)	(3)
Non-interest expenses	(188)	(163)	(156)	(158)	(166)	(153)	(166)	(170)
Income taxes	(131)	(37)	(36)	(39)	(25)	(21)	(43)	(26)
Non-controlling interest	(1)	(1)	–	(1)	–	(1)	–	(1)
Net income	$ 339	$ 126	$ 126	$ 141	$ 120	$ 100	$ 112	$ 127
Average assets *($ billions)*	$ 49.4	$ 48.2	$ 41.4	$ 41.0	$ 34.7	$ 34.1	$ 34.0	$ 34.9
Total Bank								
Net interest income	$1,305	$1,226	$1,187	$1,202	$1,245	$1,186	$1,143	$1,133
Other income	852	757	716	696	662	671	631	646
Provision for credit losses	(110)	(110)	(110)	(110)	(140)	(140)	(140)	(160)
Non-interest expenses	(1,429)	(1,274)	(1,223)	(1,186)	(1,244)	(1,186)	(1,111)	(1,116)
Income taxes	(225)	(231)	(217)	(237)	(197)	(204)	(214)	(180)
Non-controlling interest	(17)	(10)	(13)	(9)	(6)	(8)	(5)	(4)
Net income	$ 376	$ 358	$ 340	$ 356	$ 320	$ 319	$ 304	$ 319
Average assets *($ billions)*	$201.6	$200.0	$188.5	$184.1	$175.6	$173.1	$170.8	$172.7
Return on equity	17.9%	17.2%	17.0%	18.0%	16.2%	16.4%	16.3%	17.2%
Balance Sheet								
Assets								
Cash resources and securities	$ 67,057	$ 58,846	$ 61,921	$ 55,853	$ 50,415	$ 46,237	$ 46,196	$ 45,810
Residential mortgages	48,056	47,116	46,109	45,427	45,088	44,403	44,059	44,087
Consumer instalment and other personal loans	18,361	17,471	17,551	17,172	16,833	16,380	16,376	16,399
Credit card loans	3,522	3,429	3,358	3,502	3,435	3,367	3,279	3,378
Business and government loans	54,406	52,453	51,064	49,175	49,630	48,097	48,166	47,868
Assets purchased under reverse repurchase agreements	11,446	7,172	4,620	5,577	4,591	4,183	2,781	3,612
Other assets	15,102	14,639	14,843	14,802	13,660	14,102	14,634	14,191
	$217,950	$201,126	$199,466	$191,508	$183,652	$176,769	$175,491	$175,345
Liabilities and shareholders' equity								
Consumer deposits	$ 90,774	$ 90,385	$ 91,436	$ 90,796	$ 89,929	$ 88,359	$ 87,578	$ 85,624
Other deposits	71,043	59,932	58,387	54,464	53,562	49,267	50,266	51,403
Other liabilities	43,092	37,541	36,606	33,493	27,595	26,592	25,023	25,777
Subordinated debentures	3,627	3,663	3,651	3,562	3,534	3,688	3,680	3,736
Shareholders' equity	9,414	9,605	9,386	9,193	9,032	8,863	8,944	8,805
	$217,950	$201,126	$199,466	$191,508	$183,652	$176,769	$175,491	$175,345
Asset Quality								
Net impaired loans ($)	$524	$535	$633	$733	$1,148	$1,544	$1,649	$2,052
As a % of loans and acceptances	.4%	.4%	.5%	.6%	.9%	1.3%	1.4%	1.7%
Capital Ratios								
Tier 1	7.0%	7.2%	7.0%	6.9%	6.9%	6.9%	6.6%	6.4%
Total	9.4%	9.9%	9.7%	9.6%	9.8%	9.9%	9.8%	9.7%
Common equity/risk-adjusted assets	6.0%	6.0%	5.8%	5.7%	5.8%	5.7%	5.5%	5.3%
Common Share Information								
Shares outstanding *(thousands)*								
end of period	310,529	314,160	314,155	314,155	314,155	314,155	314,155	314,155
average	314,017	314,157	314,155	314,155	314,155	314,155	314,155	314,155
Earnings per share	$1.09	$1.02	$.97	$1.01	$.90	$.88	$.83	$.88
Dividends per share	.34	.34	.34	.31	.31	.29	.29	.29
Book value per share	24.67	24.19	23.51	22.88	22.42	21.85	21.25	20.72
Common share information – High	44.40	34.70	33.50	33.38	31.38	31.25	30.38	29.88
Low	33.20	31.70	30.63	29.75	28.13	28.88	27.25	25.88
Close	44.30	33.25	32.25	33.13	30.13	29.25	29.88	27.50
Dividend yield	3.5%	4.1%	4.2%	3.9%	3.9%	3.9%	4.0%	4.2%
Dividend payout ratio	31.2%	33.2%	35.3%	30.5%	34.4%	32.7%	34.9%	33.0%

CONSOLIDATED REVENUES AND EXPENSES AS A PERCENTAGE OF AVERAGE ASSETS	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
Average assets *($ millions)*	$193,600	$173,100	$166,700	$142,500	$136,200	$130,100	$121,700	$112,700	$104,300	$100,400	$97,700
Net interest income *(1)*	2.54%	2.72%	2.83%	3.13%	3.05%	3.09%	3.03%	3.30%	3.22%	3.09%	3.07%
Other income	1.56	1.51	1.60	1.47	1.42	1.36	1.37	1.38	1.24	1.08	.87
Gross revenues	4.10	4.23	4.43	4.60	4.47	4.45	4.40	4.68	4.46	4.17	3.94
Provision for credit losses	(.23)	(.34)	(.49)	(1.23)	(1.51)	(.47)	(.35)	(1.22)	(.72)	(.90)	(1.00)
	3.87	3.89	3.94	3.37	2.96	3.98	4.05	3.46	3.74	3.27	2.94
Non-interest expenses	(2.64)	(2.69)	(2.79)	(3.10)	(2.87)	(2.78)	(2.72)	(2.63)	(2.46)	(2.34)	(2.24)
	1.23	1.20	1.15	.27	.09	1.20	1.33	.83	1.28	.93	.70
Income taxes *(1)*	(.47)	(.46)	(.43)	(.04)	–	(.44)	(.53)	(.35)	(.59)	(.42)	(.23)
Non-controlling interest in net income of subsidiaries	(.02)	(.01)	(.02)	(.02)	(.01)	–	(.01)	(.01)	(.01)	–	(.01)
Return on assets	.74%	.73%	.70%	.21%	.08%	.76%	.79%	.47%	.68%	.51%	.46%
Return on assets after preferred dividends	.66%	.63%	.60%	.10%	(.01)%	.68%	.71%	.41%	.61%	.43%	.38%
Common share information *(2)*											
Shares outstanding *(thousands) (3)*	310,529	314,155	314,155	314,155	314,155	306,460	293,267	286,674	265,300	236,010	213,044
Earnings (loss) per share *(4)*	$4.09	$ 3.49	$ 3.19	$ .46	$(.05)	$ 2.92	$ 3.00	$ 1.64	$ 2.52	$ 1.89	$ 1.84
Dividends per share	1.33	1.18	1.16	1.16	1.16	1.16	1.16	1.10	1.04	1.01	1.00
Common share price *(5)* High	44.40	31.38	31.88	28.88	29.00	27.50	25.69	24.38	18.25	19.44	17.63
(5) Low	29.75	25.88	25.13	22.00	21.50	20.50	19.75	16.88	13.06	12.81	13.75
(5) Close	44.30	30.13	28.38	27.25	24.13	27.00	20.75	24.25	18.00	13.88	16.63
Book value *(6)*	24.67	22.42	20.13	18.09	18.82	19.91	18.10	16.16	15.58	14.20	17.07
Price/earnings multiple *(7)*	9.1	8.2	8.9	–	–	8.2	7.6	12.5	6.2	8.5	8.5
Dividend yield *(8)*	3.6%	4.1%	4.1%	4.6%	4.6%	4.8%	5.1%	5.3%	6.6%	6.3%	6.4%
Dividend payout ratio *(9)*	32.5%	33.8%	36.4%	–	–	40.0%	38.8%	67.4%	42.1%	54.5%	54.5%
Return on equity *(10)*	17.6%	16.6%	16.8%	2.4%	(.3)%	15.5%	17.5%	10.1%	17.2%	11.5%	10.9%
Capital ratios *($ millions) (11)*											
Tier 1 capital	$ 9,037	$ 8,421	$ 7,660	$ 6,910	$ 6,740	$ 6,938	$5,712	$5,096	$4,232		
Total capital	$12,069	$11,913	$11,525	$10,941	$10,483	$10,686	$8,525	$7,634	$6,615		
Total risk-adjusted assets	$128,163	$121,350	$120,158	$117,043	$114,298	$113,975	$115,035	$106,218	$99,801		
Tier 1 capital to risk-adjusted assets	7.0%	6.9%	6.4%	5.9%	5.9%	6.1%	5.0%	4.8%	4.2%		
Total capital to risk-adjusted assets	9.4%	9.8%	9.6%	9.3%	9.2%	9.4%	7.4%	7.2%	6.6%		
Other information											
Number of employees *(12)*	48,205	49,011	49,208	52,745	49,628	50,547	50,106	47,989	46,096	42,839	43,229
Automated banking machines	4,215	4,079	3,948	3,981	3,828	3,651	3,142	2,334	1,632	1,337	1,170
Service delivery units Domestic	1,493	1,577	1,596	1,731	1,661	1,645	1,617	1,560	1,513	1,467	1,442
International *(13)*	103	105	97	95	83	102	48	47	47	50	54
Total	1,596	1,682	1,693	1,826	1,744	1,747	1,665	1,607	1,560	1,517	1,496

(1) Net interest income and income taxes are presented on a taxable equivalent basis.
(2) Common shares were split on a 2 for 1 basis in February 1990 and all related data has been restated accordingly.
(3) At October 31.
(4) Income and earnings per share figures for 1987 are stated before the special provision for losses on country lending. Adjusting these figures for the special provision results in a loss of $1.60 per share.
(5) High and low price of common shares traded on the Toronto Stock Exchange during the year and the closing price on the last trading day of October.
(6) Common shareholders' equity divided by common shares outstanding at October 31.
(7) Average of high and low common share price divided by earnings per share. The multiples for 1993 and 1992 are not meaningful.
(8) Dividends per common share divided by the average of high and low share price.
(9) Common dividends as a percentage of net income after preferred dividends. The ratios for 1993 and 1992 are not meaningful.
(10) Net income after taxes less preferred share dividends, divided by average common shareholders' equity.
(11) Commencing October 31, 1988, the bank has calculated its capital ratios in accordance with the capital adequacy guideline of the Superintendent of Financial Institutions Canada.
(12) On a full-time equivalent basis.
(13) International service delivery units since 1991 include (in addition to branches) representative offices, agencies and subsidiaries.

PRINCIPAL SUBSIDIARIES*	PRINCIPAL OFFICE ADDRESS**	CARRYING VALUE OF VOTING SHARES OWNED BY THE BANK***
Royal Bank Mortgage Corporation****	*Montreal, Canada*	$1,086
Royal Trust Corporation of Canada****	*Toronto, Canada*	772
The Royal Trust Company	*Montreal, Canada*	143
RBC Insurance Holdings Inc.	*Mississauga, Canada*	117
Voyageur Insurance Company	*Brampton, Canada*	
Westbury Canadian Life Insurance Company	*Hamilton, Canada*	
Royal Bank Export Finance Co. Ltd.	*Toronto, Canada*	13
RT Investment Management Holdings Inc.	*Toronto, Canada*	24
Royal Bank Investment Management Inc.	*Toronto, Canada*	
RT Capital Management Inc.****	*Toronto, Canada*	
Royal Mutual Funds Inc.	*Toronto, Canada*	
Royal Bank Action Direct Inc.	*Richmond Hill, Canada*	13
Royal Bank Holding Inc.	*Toronto, Canada*	8,091
Royal Bank DS Holding Inc.	*Toronto, Canada*	
RBC Dominion Securities Limited	*Toronto, Canada*	
RBC Dominion Securities Inc.	*Toronto, Canada*	
RBC Dominion Securities Corporation	*New York, U.S.A.*	
Royal Bank Realty Inc.	*Montreal, Canada*	
3305988 Canada Inc.	*Toronto, Canada*	
Royal Bank Capital Corporation	*Toronto, Canada*	
R.B.C. Holdings (Bahamas) Limited	*Nassau, Bahamas*	
Royal Bank of Canada Trust Company (Bahamas) Limited	*Nassau, Bahamas*	
Multinational Services (Cayman) Limited****	*George Town, Grand Cayman*	
Finance Corporation of Bahamas Limited	*Nassau, Bahamas*	
Royal Bank of Canada (Asia) Limited	*Singapore*	
Investment Holdings (Cayman) Ltd.	*George Town, Grand Cayman*	
Royal Bank of Canada (Barbados) Limited	*Bridgetown, Barbados*	
Royal Bank of Canada Reinsurance (Cayman) Limited	*George Town, Grand Cayman*	373
Royal Bank of Canada Insurance Company Ltd.	*Bridgetown, Barbados*	
RBC Holdings (USA) Inc.	*New York, U.S.A.*	277
Royal Bank of Canada Financial Corporation	*Bridgetown, Barbados*	4
Atlantis Holdings Limited	*Bridgetown, Barbados*	315
RBC Finance B.V.	*Amsterdam, Netherlands*	1,052
Royal Bank of Canada (Suisse)	*Geneva, Switzerland*	
Royal Bank of Canada AG	*Frankfurt, Germany*	
RBC Holdings (Guernsey) Limited	*Guernsey, Channel Islands*	
Royal Bank of Canada (Channel Islands) Limited	*Guernsey, Channel Islands*	
Royal Bank of Canada (Jersey) Limited	*Jersey, Channel Islands*	
Royal Bank of Canada Holdings (U.K.) Limited	*London, England*	
Chancellor Investments Limited	*London, England*	
Royal Bank of Canada Europe Limited	*London, England*	
Royal Bank of Canada (IOM) Limited	*Isle of Man*	
RBC Investment Management (Asia) Limited	*Hong Kong*	28
Royal Trust Bank (Asia) Limited****	*Singapore*	

* *The bank owns 100% of the voting shares of each subsidiary, except RBC Dominion Securities Limited (73%) and Finance Corporation of Bahamas Limited (75%).*

** *The subsidiaries are incorporated under the laws of the country in which the principal office is situated, except for RT Investment Management Holdings Inc. incorporated under the laws of Ontario, and RBC Holdings (USA) Inc. incorporated under the laws of Delaware.*

*** *The carrying value (in millions of dollars) of voting shares is stated at the bank's equity in such investments.*

**** *The above-mentioned five subsidiaries have outstanding non-voting shares of which the bank, directly or indirectly, owns 100%.*

Allowance for Credit Losses
The amount deemed adequate by management to absorb anticipated credit-related losses in the portfolio of loans, acceptances, guarantees, letters of credit and deposits with other banks and derivatives. The allowance is increased by specific provisions, the country risk provision and general provisions. It is reduced by write-offs net of recoveries and by losses realized on sales and exchanges of LDC loans.

Assets under Administration and under Management
Assets administered and / or managed by a financial institution which are beneficially owned by clients and are therefore not reported on the balance sheet of the financial institution. Services provided in respect of assets under administration are of an administrative nature including safekeeping, collection of investment income, settlement of purchase and sale transactions, and record-keeping. Services provided in respect of assets under management include the selection of investments and the provision of investment advice. Assets under management may also be administered by the financial institution.

Bankers' Acceptance
A bill of exchange or negotiable instrument drawn by the borrower for payment at maturity and accepted by a bank. The acceptance constitutes a guarantee of payment by the bank and can be traded in the money market. The bank earns a "stamping fee" for providing this guarantee.

Basis Point
One one-hundredth of a percentage point.

Brady Bonds
Securities issued under the terms of the so-called "Brady Plan", named after former U.S. Treasury Secretary Nicholas Brady. Brady bonds, which may be secured in whole or in part by U.S. Treasury bonds, are issued by less developed countries in exchange for loans payable to commercial banks.

Capital Ratios
The percentage of risk-adjusted assets supported by capital, as defined by the Superintendent of Financial Institutions Canada under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS).

Commitments to Extend Credit
Credit facilities available to clients either in the form of loans, bankers' acceptances and other on-balance sheet financing, or through off-balance sheet products such as guarantees and letters of credit.

Cross Currency and Interest Rate Swaps
Derivatives which oblige two parties to exchange currencies and/or the related interest flows (e.g. fixed rate for floating rate) on a specified notional amount for a specified period.

Derivatives
A derivative is a contract whose value is "derived" from interest rates, foreign exchange rates, or equity or commodity prices. Use of derivatives allows for the transfer, modification, or reduction of current or expected risks, including interest rate, foreign exchange and other market risks. The most common types of derivatives include interest rate and cross currency swaps, foreign exchange forward contracts, foreign currency and interest rate futures, forward rate agreements, and foreign currency and interest rate options. Derivatives can be transacted either through organized exchanges or over-the-counter agreements.

Documentary and Commercial Letters of Credit
Written undertakings by a bank on behalf of its customer (typically an importer), authorizing a third party (e.g. an exporter) to draw drafts on the bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

Efficiency Ratio
Non-interest expenses expressed as a percentage of gross revenue which includes net interest income and other income. Used as a measure of productivity and for comparison with peers.

Foreign Currency and Interest Rate Futures
A type of derivative which creates an obligation to buy or sell a foreign currency or a financial instrument on a future date at a specified price established on a commodity exchange.

Foreign Currency and Interest Rate Options
A type of derivative in which the writer grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option) at or by a set date, a set amount of foreign currency or a financial instrument at a set price.

Foreign Exchange Spot and Forward Contracts
A *Foreign Exchange Forward Contract,* which is a type of derivative, is a commitment to buy or sell a fixed amount of foreign currency on a future specified date at a set rate of exchange. A *Foreign Exchange Spot Contract* is a commitment to buy or sell a fixed amount of foreign currency for delivery within two business days of the contract date.

Forward Rate Agreement (FRA)
A type of derivative which obliges two parties to make a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional amount. When used as a hedge, an FRA protects against future movements in market interest rates.

Guarantees and Standby Letters of Credit
Primarily represent irrevocable assurances that a bank will make payments in the event that its customer cannot meet its financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds.

Hedge
A risk management technique used to insulate financial results from market, interest rate, or foreign currency exchange risk (exposure) arising from normal banking operations. The elimination or reduction of such exposures is accomplished by establishing offsetting positions. For example, assets denominated in foreign currencies can be offset

with liabilities in the same currencies or through the use of foreign exchange hedging instruments such as futures, options, or foreign exchange contracts.

Impaired Loans
Loans are classified as impaired when, in the opinion of management, there is no longer reasonable assurance of the timely collection of principal and interest. Loans, other than credit card balances, are automatically placed on a cash basis when a payment is 90 days past due, unless the loan is well secured and in the process of collection. All loans are classified as impaired when a payment is 180 days in arrears.

London Inter-Bank offered Rate (LIBOR), Bid Rate (LIBID) and Mean Rate (LIMEAN)
The interest rates at which banks offer to lend funds (LIBOR) and purchase funds (LIBID) in the international inter-bank market. The average of the LIBOR and LIBID is referred to as the LIMEAN.

Mark-to-Market
Valuation at market rates, as of the balance sheet date, of securities and derivatives held for trading purposes.

Net Interest Income
The difference between what a bank earns on assets such as loans and securities and what it pays on liabilities such as deposits and subordinated debentures.

Notional Amount
The contract amount used as a reference point to calculate payments for derivatives.

Off-Balance Sheet Financial Instruments
A variety of products offered to customers which fall into two broad categories: (i) credit-related arrangements which provide customers with liquidity protection, and (ii) derivatives, which are defined on the previous page.

Prepaid Pension Cost
The cumulative excess of amounts contributed to a pension fund over the amounts recorded as pension expense.

Provision For Credit Losses
A charge to income which is added to the allowance for credit losses. *Specific provisions* are established to reduce the book value of specific assets (primarily loans) to estimated realizable values. A *country risk provision* is established for possible losses on aggregate loans made prior to November 1, 1995 to a group of 48 less developed countries designated by the Superintendent of Financial Institutions Canada. *General provisions* are established for anticipated losses on aggregate exposures including those in particular industries or geographic regions (excluding LDCs) where credit losses cannot yet be determined on an individual facility basis.

Return on Equity (ROE)
Net income, less preferred share dividends, expressed as a percentage of average common shareholders' equity.

Risk
Banking involves a number of different risks. *Credit risk* refers to the possibility that counterparties to financial instruments transacted with a bank will be unable to discharge their obligations under the instruments and cause the bank to suffer a loss. *Liquidity risk* refers to potential demands on a bank for cash resulting from commitments to extend credit, deposit maturities and many other transactions. *Market risk* is the risk of loss that results from changes in interest rates, foreign exchange rates, equity and commodity prices and the volatility of these rates and prices. Interest rate risk is the potential impact on the bank's earnings and economic value due to changes in interest rates. Rising interest rates could, for example, increase funding costs and reduce the net interest income earned on a fixed yield mortgage portfolio. Foreign exchange risk refers to possible losses resulting from exchange rate movements. A foreign currency devaluation, for example, could result in losses on an overseas investment. Interest rate, foreign exchange and other market risks are hedged as far as is practical using a variety of financial instruments. *Operational risk* is the potential for loss caused by a breakdown in procedures in transaction processing, risk management and reporting.

Risk-Adjusted Assets
Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per dollar among all types of assets. The risk inherent in off-balance sheet instruments is also recognized, first by adjusting notional values to balance sheet (or credit) equivalents, and then by applying appropriate risk weighting factors.

Securities Lending
Transactions in which a bank acts as an agent for the owner of a security, who agrees to lend the security under the terms of a pre-arranged contract to a borrower for a fee. The borrower must fully collateralize the security loan at all times. There are two types of securities lending arrangements, lending with and without credit or market risk indemnification. In securities lending without indemnification, the bank bears no risk of loss. For transactions in which the bank provides an indemnification, risk of loss occurs if the borrower defaults and the value of the collateral declines concurrently.

Securities Sold Short
Transactions in which the seller sells securities it does not own. The seller borrows the securities in order to deliver them to the purchaser. At a later date, the seller buys identical securities in the market to replace the borrowed securities.

Taxable Equivalent Adjustment
An addition to interest income in order to gross up the tax-exempt income earned on certain securities (primarily loan substitute securities) to an amount which, had it been taxable at the statutory rate, would result in the same after-tax net income as appears in the financial statements. The gross-up of such income to a taxable equivalent basis permits a uniform measurement and comparison of net interest income.

JOHN E. CLEGHORN, F.C.A. (1987)
Toronto
Chairman and
Chief Executive Officer
Royal Bank of Canada

THEODORE M. ALLEN (1992)
Winnipeg
President and
Chairman of the Board
United Grain Growers Limited

SIR JAMES BALL (1990)
London, England
Professor of Economics
London Business School

JACQUES BOUGIE, O.C. (1991)
Montreal
President and
Chief Executive Officer
Alcan Aluminium Limited

* ROBERT M. CHIPMAN (1986)
Winnipeg
Chairman
The Megill-Stephenson
Company Limited

RONALD L. CLIFF, C.M., F.C.A. (1987)
West Vancouver
Chairman
BC Gas Inc.

GEORGE A. COHON, O.C. (1988)
Toronto
Senior Chairman and
Chairman of the Executive
Committee
McDonald's Restaurants of
Canada Limited

G.N. (MEL) COOPER, C.M., O.B.C. (1992)
Victoria
Chairman and
Chief Financial Officer
Seacoast Communications
Group Inc.

MITZI S. DOBRIN, C.M. (1976)
Westmount
Chairman and
Chief Executive Officer
DBRN Holdings Inc.

JOHN R. EVANS, C.C., M.D. (1984)
Toronto
Chairman
Alcan Aluminium Ltd.
Torstar Corporation

JOHN T. FERGUSON, F.C.A. (1990)
Edmonton
Chairman and
Chief Executive Officer
Princeton Developments Ltd.

L. YVES FORTIER, C.C., Q.C. (1992)
Montreal
Chairman
Ogilvy Renault

THE HON. PAULE GAUTHIER, P.C., O.C., Q.C. (1991)
Quebec City
Partner
Desjardins Ducharme Stein
Monast

ARDEN R. HAYNES, O.C. (1985)
Don Mills
Company Director

CHARLES H. KNIGHT (1983)
Regina
Chief Executive Officer
Denro Holdings Ltd.

THE HON. E. PETER LOUGHEED, P.C., C.C., Q.C. (1986)
Calgary
Senior Partner
Bennett Jones Verchere

G. WALLACE F. MCCAIN, O.C. (1986)
Toronto
Chairman
Maple Leaf Foods Inc.

DAWN R. MCKEAG (1978)
Winnipeg
President
Walford Investments Ltd.

J. EDWARD NEWALL, O.C. (1984)
Calgary
Vice-Chairman and
Chief Executive Officer
NOVA Corporation

DAVID P. O'BRIEN (1996)
Calgary
Chairman, President and
Chief Executive Officer
Canadian Pacific Limited

ROBERT B. PETERSON (1992)
Toronto
Chairman, President and
Chief Executive Officer
Imperial Oil Limited

** RALPH A. PFEIFFER, JR. (1984)
Greenwich, CT
Retired Chairman and
Chief Executive Officer
IBM World Trade Corporation

*** HARTLEY T. RICHARDSON (1996)
Winnipeg
President
James Richardson & Sons,
Limited

KENNETH C. ROWE, F.C.I.S. (1985)
Halifax
Chairman, President and
Chief Executive Officer
I.M.P. Group International Inc.

GUY SAINT-PIERRE, O.C. (1990)
Montreal
Chairman of the Board
SNC-Lavalin Group Inc.

ROBERT T. STEWART (1988)
Vancouver
Company Director

ALLAN R. TAYLOR, O.C. (1983)
Toronto
Retired Chairman and
Chief Executive Officer
Royal Bank of Canada

JOHN A. TORY, Q.C. (1971)
Toronto
Deputy Chairman
The Thomson Corporation

SHEELAGH D. WHITTAKER (1993)
Toronto
President
EDS Canada

VICTOR L. YOUNG, O.C. (1991)
St. John's, Newfoundland
Chairman and
Chief Executive Officer
Fishery Products International
Limited

* *Not standing for re-election on March 5, 1997*
** *Deceased September 13, 1996*
*** *Appointed November 5, 1996*

The date appearing after the name of each director indicates the year in which the individual became a director. The term of office of each director will expire at the next annual meeting, scheduled for March 5, 1997.

Since November 1, 1990, the directors have held the principal occupations described above, except Mr. John E. Cleghorn who, prior to January 26, 1995 was President and Chief Executive Officer and prior to November 1, 1994, was President and Chief Operating Officer, Mr. John T. Ferguson who, prior to April 1996, was President and Chief Executive Officer of Princeton Developments Ltd., Mr. L. Yves Fortier who, prior to September 1992, was Canada's Ambassador and Permanent Representative to the United Nations, Mr. Arden R. Haynes who, prior to September 1992, was Chairman and Chief Executive Officer of Imperial Oil Limited, Mr. G. Wallace F. McCain who, prior to April 1995, was President of McCain Foods Limited, Mr. David P. O'Brien who, prior to May 1996, was President and Chief Operating Officer of Canadian Pacific Limited, prior to February 1995, was Chairman and Chief Executive Officer of PanCanadian Petroleum Limited and prior to December 1994 was Chairman, President and Chief Executive Officer of PanCanadian Petroleum Limited, Mr. Robert B. Peterson who, prior to July 1994, was Chairman and Chief Executive Officer and prior to September 1992 was President and Chief Operating Officer of Imperial Oil Limited, Mr. Hartley T. Richardson who, prior to April 1993, was General Manager of the Real Estate Division of James Richardson & Sons, Limited, Mr. Guy Saint-Pierre who, prior to May 1996, was President and Chief Executive Officer of SNC-Lavalin Group Inc., Mr. Robert T. Stewart who, prior to January 1994, was Chairman, President and Chief Executive Officer of Scott Paper Limited, Mr. Allan R. Taylor who, prior to January 26, 1995, was Chairman of Royal Bank of Canada and prior to November 1, 1994 was Chairman and Chief Executive Officer and Ms. Sheelagh D. Whittaker who, prior to November 1993, was President and Chief Executive Officer of Canadian Satellite Communications Inc.

To the knowledge of the bank, the directors and senior officers, as a group, beneficially own or exercise control or direction over less than (1%) of the common shares of the bank. None of the directors or senior officers of the bank holds shares of its subsidiaries except where required for qualification as a director of a subsidiary and except with respect to RBC Dominion Securities Limited. To the knowledge of the bank, the senior officers of the bank, as a group, beneficially own or exercise control or direction over, less than (1.9%) of the outstanding Class C shares or (0.5%) of the votes attaching to all outstanding voting securities of RBC Dominion Securities Limited. The bank is required to have an audit committee (see page 114).

Corporate governance at Royal Bank is a system of principles, structures and processes designed to enable the Board of Directors to carry out its responsibilities effectively and to assist the board in evaluating and improving its performance.

The Board of Directors of Royal Bank continues to be proactive in adopting effective corporate governance processes and industry-leading standards. In 1980 and again in 1993, special board committees were set up to undertake reviews of the role and functions of the Board of Directors and the board's corporate governance practices. The recommendations of these committees have become the basis for the development and ongoing improvement of Royal Bank's corporate governance system.

Royal Bank's corporate governance system is discussed below with reference to the *Bank Act* and the Guidelines for Improved Corporate Governance of the Toronto and Montreal stock exchanges (the "Stock Exchange Guidelines").

Mandate of the Board

The mandate of the Board of Directors is to supervise the management of the business and affairs of the bank. The main areas of responsibility under this mandate include enhancing shareholder value, reviewing and approving the strategic plan and priorities, operating plan, capital budget and financial goals of Royal Bank Financial Group, senior management planning and succession, and the dividend policy of Royal Bank. In addition, the *Bank Act* prescribes specific duties, which include establishing investment and lending policies, standards and procedures, and establishing certain committees of the Board of Directors. Certain of the duties of the Board of Directors must be performed by the board itself, and certain of its other duties have been delegated to committees of the board. The mandates and memberships of the board committees are discussed below.

Board Meetings and Procedures

There are ten regularly scheduled meetings of the Board of Directors held each year. As well, special meetings of the board are held as required. The directors also periodically attend special seminars and hold off-site sessions to discuss strategic issues relating to Royal Bank Financial Group.

The Corporate Governance Committee, in concert with the Chairman of each board committee and the Chairman and Chief Executive Officer, develops a forward agenda for board meetings and makes arrangements with senior management for special presentations on matters of interest to the Board of Directors. The Chairman of each board committee normally reports to the full board after each meeting of the committee. Prior to each board meeting, the directors receive a comprehensive information package including the agenda, minutes of the previous meeting, and presentations and other materials relating to items on the agenda. The board utilizes a consent agenda process for routine matters in order to free up the board's time for matters of strategic importance.

Board Composition

The *Bank Act* provides that no more than two-thirds of the directors may be "affiliated" with the bank. "Affiliated" persons include an officer or employee; a significant borrower; a person who controls or is an officer or employee of a significant borrower; a person who is an officer, partner or employee of, or who has a substantial investment in, a partnership or company that provides goods or services to Royal Bank with annual billings to the bank exceeding 10% of its total annual billings; a person whose loan from Royal Bank is not in good standing or who is a director, officer or employee of, or who controls, an entity with a loan from Royal Bank which is not in good standing; and a spouse of any person who is "affiliated". Currently, less than one-third of the directors are "affiliated" with Royal Bank.

The Stock Exchange Guidelines state that a majority of directors should be "unrelated", as that term is defined in the Guidelines. In applying the principles underlying this definition, the Board of Directors made the determination that each director who is "affiliated" (as defined in the *Bank Act*) with Royal Bank would be considered to be "related" for the purpose of the Stock Exchange Guidelines. The Corporate Governance Committee, on behalf of the Board of Directors, also made the determination that the former Chairman and Chief Executive Officer of the bank would be considered to be "related" for a period of at least two years following his retirement date. With respect to the other directors who are not "affiliated", the Corporate Governance Committee applied the principles underlying the definition of "unrelated" to the circumstances of each of those directors, and in each case made an assessment as to whether the director was "unrelated" or "related". Based on the results of this analysis, the Board of Directors has concluded that the majority of its directors are "unrelated".

Board Effectiveness

The Corporate Governance Committee manages the corporate governance system of Royal Bank, including the methods and processes for board effectiveness, and monitors the nature and format of information provided to the Board of Directors by management. The Committee also reviews periodically the effectiveness of the Board of Directors and assesses, against selected criteria, the performance of individual directors standing for re-election. The mandate of the Corporate Governance Committee is more fully discussed below.

Conflict of Interest/Related Party Transactions

The *Bank Act* and the Board of Directors itself impose requirements on the directors regarding conflicts of interest and related party transactions. Statutory provisions require directors to disclose their interest in and refrain from voting in respect of material contracts with Royal Bank. In addition, directors and entities in which directors and their immediate families have substantial investments are "related parties" for the purposes of the *Bank Act*. Transactions with "related parties" are subject to a comprehensive set of rules and are monitored and reviewed by the Conduct Review Committee of the board.

Director Orientation Program

An ongoing orientation program has been developed for all directors, with a focus on the corporate governance system, including roles, responsibilities and liabilities of directors. Each new director of the bank is presented with a Director's Guide and has an opportunity to meet with senior management to discuss the business functions and principal activities of Royal Bank Financial Group. Special seminars on specific issues relating to banking and the financial services industry environment are provided to directors on a periodic basis.

Size of the Board

The size of the Board of Directors reflects the business need for strong geographical, professional and industry sector representation. At the same time, the Board of Directors feels that the number of directors should be kept sufficiently low to facilitate open and effective dialogue. The Board of Directors has therefore adopted a goal to reduce the size of the board from the current level of 28 directors to the range of 18-21 directors. This goal will be achieved through normal attrition over the medium term.

Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Officer are combined in Royal Bank. This is consistent with general practices within the banking industry in North America. This has the advantage of the Chairman of the Board of Directors having a more detailed knowledge of the business and activities of Royal Bank Financial Group than would be possible in the case of a non-executive Chairman. The Board of Directors believes that the separation of the two offices is not necessary in order for the board to act independently of management and that the benefits of a separation of the positions can be achieved through an effective corporate governance system.

At Royal Bank, the corporate governance system includes the Chairman of the Corporate Governance Committee serving as an informal liaison among the directors, and between the board and senior management, on corporate governance matters. As well, following meetings of the Board of Directors, the Chairman of the Corporate Governance Committee chairs meetings of non-management directors at which any concerns may be freely expressed. Board policy permits no more than two officer-directors, and an officer-director may not serve as a member of a committee of the board.

Board Authority and Delegation

The Board of Directors has passed a resolution that deals with authorities and delegations of authority within the organizational structure of Royal Bank Financial Group. In addition to those matters that must by law be approved by the Board of Directors, the directors have reserved approval for certain matters to the board or the appropriate committee of the board and have delegated responsibility for certain others to management.

Engagement of Outside Advisor

The board has adopted a policy that enables an individual director to engage an outside advisor at the expense of the bank with the authority of the Chairman of the Corporate Governance Committee or the Chairman and Chief Executive Officer.

Investor Relations

Royal Bank maintains an investor relations department which communicates with potential and existing investors and responds to investor inquiries and concerns. Every shareholder inquiry receives a prompt response from an appropriate officer of Royal Bank. The Chief Executive Officer, the Chief Financial Officer and other senior executives also meet periodically with financial analysts and institutional investors.

Board Committees

Set out below are descriptions of the mandates of the board committees. Each committee is composed entirely of outside directors, and a majority of the directors on each committee are "unaffiliated" and "unrelated".

Audit Committee

Chairman: J.R. Evans
Members: Sir James Ball, R.M. Chipman, R.L. Cliff, L.Y. Fortier, A.R. Haynes, G.W.F. McCain, **R.A. Pfeiffer, Jr.

The Audit Committee reviews matters that are prescribed by the *Bank Act,* including annual and quarterly statements, returns specified by the Superintendent of Financial Institutions, and investments and transactions that could adversely affect the well-being of Royal Bank. The Committee reviews prospectuses relating to the issue of shares and subordinated indebtedness. The Committee also reviews the form of offering document which may be used in the exercise by the Chief Executive Officer of the delegated power to authorize and approve issues of subordinated indebtedness.

The Audit Committee, through meetings with the shareholders' auditors, the chief internal auditor of Royal Bank and senior management, monitors the effectiveness of the internal control procedures and management information systems, controls, procedures and accounting practices established for the bank. The Committee is apprised on a periodic basis by senior management of measures implemented at Royal Bank to ensure compliance with the Canada Deposit Insurance Corporation ("CDIC") Internal Control Standards, which includes guidelines on information technology controls, valuation policies and procedures, safeguarding controls, accounting and record keeping controls, management information systems, and independent inspections and audits. The Committee reviews and approves policies related to liquidity management and capital management as provided for in the related CDIC Standards. The Committee also reviews and approves the Standards Assessment and Reporting Program concerning adherence to these CDIC Standards.

Conduct Review Committee

Chairman: R.B. Peterson
Members: T.M. Allen, J.T. Ferguson, P. Gauthier, C.H. Knight, K.C. Rowe, R.T. Stewart

The Conduct Review Committee ensures that procedures are established to review transactions with "related parties" of Royal Bank; ensures that these transactions meet market terms and conditions; and reviews the practices of the bank to ensure that any of these transactions having a material effect on the stability or solvency of the bank are identified. The Committee also establishes and monitors procedures to resolve conflicts of interest, for disclosure of information to customers, for restricting the use of confidential information, and for dealing with complaints.

Corporate Governance Committee

Chairman: A.R. Haynes
Members: J. Bougie, R.L. Cliff, L.Y. Fortier, E.P. Lougheed, D.R. McKeag, J.E. Newall, J.A. Tory

The Corporate Governance Committee has responsibility for identifying, evaluating and recommending nominees for the Board of Directors, in consultation with the Chairman and Chief Executive Officer. Nominees for the board are selected on the basis of individual attributes, including sound business judgment, integrity, ability to generate public confidence, business or professional activity and experience, international experience, knowledge of local, national and international issues, residency and familiarity with a geographic region relevant to the bank's strategic priorities.

The Committee reviews annually the credentials of each nominee for re-election as a member of the Board of Directors, considering his or her continued qualification as a director under applicable laws, the continued validity of the credentials underlying the appointment of the director, and an evaluation of the effectiveness and performance of the director. The Committee also assesses the performance of the Board of Directors as a whole, including the committees of the board. This assessment is based partly on the results of questionnaires completed by each director on a periodic basis.

The Committee monitors and makes recommendations regarding the effectiveness of the system of corporate governance at Royal Bank, including the board program, mandates of board committees, and policies governing size and composition of the board. The Committee reviews the amount and the form of compensation of directors from time to time and makes recommendations to the Board of Directors for appropriate adjustments. The Committee also advises management in the planning of the annual strategic meeting attended by the directors and senior management.

Human Resources Committee

Chairman: J.E. Newall
Members: J. Bougie, D.P. O'Brien, **R.A. Pfeiffer, Jr., ***H.T. Richardson, J.A. Tory, S.D. Whittaker, V.L. Young

The Human Resources Committee is responsible for reviewing and approving on an annual basis a statement of principles and objectives relating to the recruitment of qualified and competent persons as employees, and the training, compensation and evaluation of employees; reviewing at regular intervals the management succession plans for the executive officers of Royal Bank; reviewing the major compensation policies of Royal Bank; recommending to the Board of Directors the remuneration of the Chief Executive Officer, the Vice-Chairmen, and certain other senior executive officers of Royal Bank Financial Group; reviewing the bank's pension plan performance; and recommending to the Board of Directors all executive short and long term incentive compensation programs. The Committee is also responsible for the selection process for the Chief Executive Officer of Royal Bank and for evaluating annually the performance of the Chief Executive Officer.

Public Policy Committee

Chairman: ****G. Saint-Pierre
Members: G.A. Cohon, G.N. Cooper, M.S. Dobrin, D.R. McKeag, A.R. Taylor, V.L. Young

The Public Policy Committee reviews policies designed to create a positive and cohesive corporate image of the bank, and to ensure that the business of the bank is conducted in an ethical and socially responsible way. The Committee oversees the bank's corporate contributions policies and its communications policy, including processes for communicating with customers, employees, shareholders and the community. The members of the Committee also serve as directors of Royal Bank of Canada Charitable Foundation.

Risk Policy Committee

Chairman: R.B. Peterson
Members: T.M. Allen, J.T. Ferguson, P. Gauthier, C.H. Knight, K.C. Rowe, R.T. Stewart

The Risk Policy Committee establishes lending and investment policies, standards and procedures; reviews the policies, standards and procedures for the management of key risks in the business of Royal Bank Financial Group; reviews loans with director involvement; reviews trends in portfolio quality and the adequacy of provisions for credit losses; reviews the credit risk management, securities portfolio management, real estate appraisal and foreign exchange risk management and interest rate risk management policies and programs in accordance with the CDIC Standards; and reviews and approves the Standards Assessment and Reporting Program concerning adherence to the CDIC Standards.

** *Deceased September 13, 1996*
*** *Appointed November 5, 1996*
**** *P. Gauthier appointed Chair November 28, 1996, following resignation of G. Saint-Pierre from the Committee*

GROUP OFFICE

John E. Cleghorn
Chairman &
Chief Executive Officer
Toronto

J. Emilien Bolduc
Vice-Chairman &
Chief Financial Officer
Montreal

Gordon J. Feeney
Vice-Chairman
Toronto

Anthony S. Fell
Vice-Chairman;
Chairman &
Chief Executive Officer
RBC Dominion Securities Inc.
Toronto

Bruce C. Galloway
Vice-Chairman
Toronto

Robert J. Sutherland
Vice-Chairman
Toronto

BUSINESSES

Business Banking

Charles S. Coffey
Executive Vice-President
Toronto

George A.A. Dickson
Senior Vice-President
Toronto

Ed J. Lundy
Senior Vice-President
Toronto

with an executive office also in
Winnipeg

Card Services

Bob M. Juneau
Senior Vice-President
Toronto

Discount Brokerage

Royal Bank Action Direct Inc.

Mike A. Bastian
President & CEO
Richmond Hill, Ont.

Financial Institutions and Trade

Mike K. Taylor
Senior Vice-President
Toronto

with executive offices also in
Asia, Europe and USA

Insurance

RBC Insurance Holdings Inc.

W. James Westlake
President & CEO
Mississauga, Ont.

Multinational Banking

Bernie Schroder
Executive Vice-President
Toronto

Janice R. Fukakusa
Senior Vice-President
Financial Services
Toronto

Walter Murray
Senior Vice-President
Multinational Canada
Toronto

with executive offices also in
Calgary,
Montreal,
Vancouver,
Asia, Europe and USA

Mutual Funds

Royal Mutual Funds Inc.

Simon Lewis
President
Toronto

Personal Financial Services

Jim T. Rager
Executive Vice-President
Toronto

Elisabetta Bigsby
Senior Vice-President
Residential Mortgages
Montreal

Judith M.S. Hatley
Senior Vice-President
Sales
Toronto

Charlie S. Milbury
Senior Vice-President
Marketing & Planning
Toronto

RBC Dominion Securities Inc.

Anthony S. Fell
Chairman & Chief Executive Officer
Toronto

W. Reay Mackay
President
Chief Operating Officer
Toronto

Bryce W. Douglas
Deputy Chairman
Toronto

Charles M. Winograd
Deputy Chairman
Toronto

Global Markets

Paul A. Taylor
Vice-President & Director
Toronto

Andy Scace
Vice-President & Director
Toronto

Martin G. Klingsick
Vice-President & Director
London

Ian A. Mackay
Vice-President & Director
Toronto

with an executive office also in
Tokyo, Japan

RBC Dominion Securities Corporation

Gordon M. Ritchie
President &
Chief Executive Officer
New York

RBC Dominion Securities International Limited

Colin Sturgeon
Managing Director
London, England

Royal Trust

Anthony A. Webb
President &
Chief Executive Officer
Toronto

Greg R. Bright
Senior Vice-President
Wealth Management
Toronto

David W.S. Dunlop
Senior Vice-President
Global Securities Services
Toronto

with executive offices also in
Calgary, Alta
London, Ont.
Montreal, Que
Ottawa, Ont
Vancouver, B.C.
Victoria, B.C.

Global Private Banking

Michael J. Lagopoulos
Senior Vice-President
Global Private Banking
Toronto

with executive offices also in
Miami, Florida
Geneva, Switzerland,
Singapore,
Guernsey and
Jersey, Channel Islands

Royal Trust Investment Management

B. Lee Bentley
President & C.E.O.
Toronto

GEOGRAPHIES – CANADA

Alberta

Gord G. Tallman
Senior Vice-President &
General Manager
Calgary

with an executive office also in
Edmonton

Atlantic

Clay J. Coveyduck
Senior Vice-President &
General Manager
Halifax

with executive offices also in
Saint John and
St. John's

British Columbia & Yukon

Rod S. Pennycook
Senior Vice-President &
General Manager
Vancouver

with executive offices also in
Langley,
New Westminster,
Prince George and
Victoria

Manitoba

Dennice M. Leahey
Senior Vice-President &
General Manager
Winnipeg

Metropolitan Toronto

George F. Gaffney
Executive Vice-President &
General Manager
Toronto

with executive offices also in
Etobicoke,
Mississauga,
North York,
Richmond Hill, and
Scarborough, Ontario

Ontario (outside Toronto)

Pam G. Pitz
Senior Vice-President &
General Manager
Burlington

with executive offices also in
Kitchener,
London, and
Ottawa.

Quebec

Michael L. Turcotte
Senior Vice-President
Montreal

J.A. Roland Guay
Senior Vice-President
Retail Banking
Montreal

with executive offices also in
Quebec City

Saskatchewan

Anne Lockie
Senior Vice-President &
General Manager
Regina

with an executive office also in
Saskatoon

GEOGRAPHIES – INTERNATIONAL

Asia

J. Philip W. Brewster
Senior Vice-President &
General Manager
Singapore

with executive offices also in
Hong Kong,
Shanghai, China,
Seoul, South Korea,
Taipei, Taiwan, and
Tokyo, Japan.

Caribbean

David C. Gale
Vice-President
Nassau, Bahamas

C. Doug Maloney
Vice-President
Bridgetown, Barbados

Europe, Middle East & Africa

Ronald E. Stanley
Senior Vice-President &
General Manager
London

with an executive office also in
Paris, France

Latin America

Al A. Bowbyes
Senior Vice-President &
General Manager
Toronto

with an executive office also in
Mexico City, Mexico

U.S.A.

David L. Robertson
Senior Vice-President &
General Manager
New York

with executive offices also in
Chicago and
Los Angeles

FUNCTIONS

Corporate Affairs

Bryan P. Davies
Senior Vice-President
Toronto

Corporate Secretary

Jane E. Lawson
Senior Vice-President &
Corporate Secretary
Montreal

Corporate Treasury

Suzanne B. Labarge
Executive Vice-President
Toronto

Bryan P. Griffiths
Senior Vice-President
Toronto

David W. Dougherty
Senior Vice-President
Trading Risk Management
Toronto

Finance

Monique F. Leroux
Senior Vice-President
Montreal

Michael Conway
Vice-President & Chief
Accountant
Montreal

Human Resources

E. Gay Mitchell
Executive Vice-President
Toronto

Jim J. Gannon
Senior Vice-President
Human Resource Development
Toronto

Peter H. Tucker
Senior Vice-President
Compensation & Organization
Toronto

Internal Audit Services

John Merriam
Senior Vice-President
Chief Internal Auditor
Toronto

Law

E.K. (Ted) Weir
Senior Vice-President
General Counsel
Toronto

Ombudsman

Verne G. McKay
Senior Vice-President
Toronto

Operations & Service Delivery

Don A. Berardinucci
Executive Vice-President
Toronto

Robert H. Aylward
Senior Vice-President
Strategic Sourcing
Toronto

A. Roger Creasor
Senior Vice-President
Service Delivery
Toronto

Harold E. Elsie
Senior Vice-President
Operations
Toronto

Pierre Lebrun
Senior Vice-President
Channel Management
Toronto

Pat A. Palmer
Senior Vice-President
Channel Management
Toronto

Real Estate Operations

Ron A. Masleck
Senior Vice-President
Toronto

Risk Management

Murray A. Corlett
Executive Vice-President
Toronto

Norm C. Achen
Senior Vice-President
Toronto

R.G. (Bob) Hall
Senior Vice-President
Toronto

John McCallum
Senior Vice-President &
Chief Economist
Toronto

Geza P.Z. Tatrallyay
Senior Vice-President
Risk Policy
Toronto

Strategic Investments

Don S. Wells
Executive Vice-President
Montreal

Systems & Technology

Ken A. Smee
Executive Vice-President
Toronto

J. Doug Dixon
Senior Vice-President
Personal Client Technology
Toronto

Mike H. Velshi
Senior Vice-President
& Chief Technology Officer
Toronto

All of the officers of the bank have been engaged for more than five years in various capacities in the affairs of the bank, Royal Trust and their affiliates except B.P. Davies, who prior to May 1994 was Vice-president, Business Affairs & Chief Administration Officer, University of Toronto; S.B. Labarge, who prior to April 1995 was Deputy Superintendent, Deposit-Taking Institutions Sector, Office of the Superintendent of Financial Institutions, Ottawa; M.F. Leroux, who prior to July 1995 was a Partner & Associate with Caron, Belanger, Ernst & Young, Montreal; J. McCallum, who prior to June 1994 was Dean, Faculty of Arts, McGill University; E.K. Weir, who prior to September 1994 was a Senior Partner with McMillan Binch, Toronto; W.J. Westlake, who prior to January 1995 was Vice-president & Chief Operating Officer, Metropolitan Life Insurance Company, Toronto.

Incorporation

Royal Bank of Canada (the "bank") is a Schedule I bank under the *Bank Act*, and the Act is its charter.

The head office is located at Royal Bank of Canada Building, 1 Place Ville-Marie, Montreal, Quebec, Canada.

Forward-looking statements

This Annual Information Form contains forward-looking statements regarding the bank's objectives or expectations of future performance, which are based upon the bank's assessment of various external factors. If these external events do not occur as anticipated, actual performance could differ from what is currently expected.

Property

At October 31, 1996, the bank owned or leased 1,493 service delivery units in Canada and 103 units in 34 other countries. The bank also owns seven central processing centres across Canada and major office complexes in Toronto and Ottawa. At October 31, 1996, the net book value of land and buildings worldwide totalled $935 million or 0.4% of total assets.

Government Regulation

Business and investments

Except as authorized under the *Bank Act* (Canada) (the *"Bank Act"*), a bank may not engage in any other business than the business of banking or such business generally as appertains to the business of banking. The business of banking includes the provision of any financial service, acting as a financial agent, providing investment counselling services and portfolio management services, and issuing payment, credit or charge cards and operating a payment, credit or other charge card plan.

Subject to specific exceptions, the *Bank Act* limits a bank to ownership of voting shares carrying 10% of the voting rights attached to all outstanding voting shares of a body corporate, and to 25% of the shareholders' equity in any body corporate or 25% of the ownership interests in any other entity. The *Bank Act* permits controlling and, in certain circumstances, non-controlling investments in Canadian banks, trust or loan companies, insurance companies, cooperative credit societies, entities primarily engaged in dealing in securities (including portfolio management and investment counselling), in foreign institutions which are engaged in the trust, loan or insurance business, the business of a cooperative credit society or the business of dealing in securities or otherwise engaged primarily in the business of providing financial services, and in factoring, financial leasing, specialized financing and financial holding corporations. The *Bank Act* also permits investment, in some cases only with the approval of the Minister of Finance of Canada (the "Minister"), in information services, investment counselling and portfolio management, mutual fund, mutual fund distribution, real property brokerage, real property and service corporations.

Bank supervision – Canada

The Superintendent of Financial Institutions (the "Superintendent") is responsible to the Minister for the supervision of both banks and federally regulated non-bank financial institutions. The Superintendent must, at least once a year, examine the affairs and business of each chartered bank for the purpose of determining whether the provisions of the *Bank Act* are being duly observed and that the Bank is in sound financial condition, and report to the Minister.

A bank must make periodic returns to the Minister and the Bank of Canada.

Where the Superintendent is concerned about an unsafe course of conduct or an unsound practice in conducting the business of a bank, the Superintendent may direct a bank to refrain from a course of action or to perform acts necessary to remedy the situation. The *Bank Act* also gives the Superintendent the power, in certain circumstances, to take control of the assets of a bank.

The *Bank Act* requires a bank to maintain adequate capital and adequate and appropriate forms of liquidity and empowers the Superintendent to direct a bank to increase its capital or to provide additional liquidity. Regulatory capital requirements have been implemented through guidelines issued by the Superintendent.

The federal statute applicable to the Bank's federally chartered loan and trust company subsidiaries, and certain provincial statutes applicable to these subsidiaries, apply capital adequacy, liquidity and investment standards to the global operations of these subsidiaries. These statutes also restrict transactions between loan and trust subsidiaries and related parties, including officers, directors, shareholders and affiliates. Other provincial statutes have varying degrees of application to subsidiaries engaged in dealing in securities.

Bank supervision – outside Canada

Outside Canada, the bank's branches, agencies and subsidiaries are subject to the regulatory requirements of the jurisdictions in which they operate.

The bank's operations in the United States are extensively regulated under U.S. federal and state law. The Board of Governors of the Federal Reserve System has general supervisory and regulatory authority over the U.S. banking and non-banking activities and investments of the bank. In addition, individual bank offices are licensed, supervised and regulated by the Comptroller of the Currency or by state banking authorities. The operations of the bank's U.S. securities affiliate, RBC Dominion Securities Corporation, are supervised and regulated by various federal and state regulatory and self-regulatory organizations, including the Securities and Exchange Commission, the Commodity Futures Trading Commission, the National Association of Securities Dealers, Inc., and the New York Stock Exchange, Inc.

Restrictions on Share Ownership and Voting

The *Bank Act* prohibits any person from having a "significant interest" in any class of shares of the bank, that is, from beneficially owning more than 10% of the outstanding shares of the class either directly or through controlled entities. The *Bank Act* also prohibits the registration of a transfer or issue of any shares of the bank to Her Majesty in right of Canada or of a province or any agent or agency of Her Majesty in either of those rights, or to the government of a foreign country or any political subdivision, agent or agency.

The *Bank Act* prohibits any person from exercising voting rights attached to shares beneficially owned by Her Majesty in right of Canada or of a province or any agent or agency of Her Majesty in either of those rights, or by the government of a foreign country or any political subdivision, agent or agency.

Additional Information

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of securities, options to purchase securities, and interests of insiders in material transactions is contained in the bank's information circular for its most recent annual meeting of shareholders. Additional financial information is provided in the bank's comparative financial statements for the year ended October 31, 1996.

The bank will provide to any person, upon request to the Vice-President of Investor Relations at the bank's corporate headquarters, a copy of this annual information form and any documents incorporated by reference, a copy of the comparative financial statements for the year ended October 31, 1996 together with the accompanying report of the auditors, a copy of any interim financial statements subsequent to the financial statements for the year ended October 31, 1996, and a copy of any other documents incorporated by reference in a preliminary short form prospectus or short form prospectus if securities of the bank are in the course of a distribution.

Documents Incorporated by Reference

Additional items comprising the bank's annual information form are disclosed in portions of this Annual Report and are incorporated by reference as set out below.

ITEM	REFERENCE
Principal subsidiaries	page 109
General development of the business	page 18
Narrative description of business and competitive conditions	pages 14-15 and 18-36
Impaired loans	Note 1, page 82; Note 4, page 87; Table 24, page 57
Foreign loans	Table 22, page 55
Allowance for credit losses	Note 1, page 83; Note 5, page 88
Mortgage operations	Table 7, page 44; Table 24, page 57; Table 26, page 60
Employees	page 4
Cash dividends	page 4; Note 11, page 92
Selected consolidated financial information	page 4
Quarterly financial information	page 107
Dividend policy	page 40
Management's discussion and analysis	pages 37-76
Market for securities of the bank	page 120
Directors	page 112
Officers	pages 116-117

Corporate Headquarters

Street Address:
1 Place Ville Marie
Montreal, Quebec,
Canada
Telephone: (514) 874-2110
Fax: (514) 874-5891
Telex: 055-61086
Internet Address:
http://www.royalbank.com/

Mailing Address:
Royal Bank of Canada
P.O. Box 6001
Montreal, Quebec
Canada H3C 3A9

Stock Exchange Listings

(Symbol: RY)

Common Shares listed on:

Canada:
Montreal, Toronto, Vancouver, Winnipeg and Alberta Stock Exchanges

U.S.A.:
New York Stock Exchange

Switzerland:
Electronic Stock Exchange (EBS)

U.K.:
London Stock Exchange

All Preferred shares are listed on the Toronto and Montreal Stock Exchanges.

Certain deposit notes and subordinated debentures are listed on the London and Luxembourg Stock Exchanges and are quoted on Reuters.

Dividend Dates for 1997

	RECORD DATES	PAYMENT DATES
COMMON SHARES AND PREFERRED SHARES SERIES H, I, J AND K	*Jan. 27* *Apr. 24* *Jul. 24* *Oct. 27*	*Feb. 24* *May 23* *Aug. 22* *Nov. 24*
PREFERRED SHARES SERIES F AND G	*Jan. 10* *Apr. 11* *Jul. 10* *Oct. 10*	*Jan. 31* *Apr. 30* *Jul. 31* *Oct. 31*
PREFERRED SHARES SERIES E	*Last trading day of each month*	*12th day of the following month*

Valuation Day Price

For capital gains purposes, the Valuation Day (December 22, 1971) cost base for the bank's common shares, adjusted for prior stock splits, is $7.38 per share.

Transfer Agent and Registrar

Main Agent
Montreal Trust Company of Canada

Mailing Address:
P.O. Box 890, Station "B"
Montreal, Quebec
Canada H3B 3K5

Street Address:
1800 McGill College Avenue
Montreal, Quebec
Canada, H3A 3K9
Telephone: (514) 982-7555
Fax: (514) 982-7635
Telex: 055-61286

Co-transfer Agents (Canada)

Montreal Trust Company of Canada

1465 Brenton St., 5th Floor
Halifax, N.S. B3J 3S9

151 Front Street W., 8th Floor
Toronto, Ont. M5J 2N1

Western Gas Tower
530 – 8th Avenue S.W., 6th Floor
Calgary, Alta. T2P 3S8

Scotia Centre
1783 Hamilton St., Suite 660
Regina, Sask. S4P 2B6

Mezzanine Level
200 Portage Avenue
Winnipeg, Man. R3C 3X2

510 Burrard Street
Vancouver, B.C. V6C 3B9

Co-transfer Agent (U.S.A.)

The Bank of New York
101 Barclay Street
New York, N.Y. 10286

Co-transfer Agent (United Kingdom)

The Royal Bank of Scotland plc
Securities Services – Registrars
P.O. Box No. 82, Caxton House
Redcliffe Way, Bristol, England
BS99 7NH

Institutional Investor, Broker and Security Analyst Contact

Institutional investors, brokers and security analysts requiring financial information should contact the Vice-President, Investor Relations, by writing to the bank's corporate headquarters, or by calling (514) 874-5022, or by fax to (514) 874-5891.

Shareholder Contact

For change of address, shareholders are requested to write to the bank's transfer agent, Montreal Trust Company of Canada, at their mailing address, and for dividend information and estate transfers, shareholders are requested to call the Transfer Agent at (514) 982-7555.

Other shareholder inquiries may be directed to our Investor Relations Department, by writing to the bank's corporate headquarters or by calling (514) 874-5012.

Shareholders may have their dividends deposited by electronic funds transfer directly to an account at any financial institution that is a member of the Canadian Payments Association. To arrange for this, please write to Montreal Trust Company of Canada at their mailing address.

Common Share Repurchase

The bank is engaged in a normal course issuer bid through the facilities of the Toronto and Montreal stock exchanges, under which it may repurchase up to 31,272,424 common shares during the 12 months ending September 25, 1997. Purchases will be made in the open market at market prices through the facilities of the Toronto and Montreal stock exchanges, and in accordance with stock exchange requirements. The amount and timing of purchases are determined by the bank.

A copy of the bank's Notice of Intention to file a Normal Course Issuer Bid may be obtained, without charge, on request from the Secretary of the bank.

Annual Meeting

Royal Bank of Canada's Annual Meeting of common shareholders will be held on March 5, 1997 at 11:00 a.m. (Pacific time) at the Vancouver Trade & Convention Centre, 999 Canada Place, Vancouver, British Columbia.

our other stakeholders

Though the numbers on the preceding pages paint a clear financial portrait of the year gone by, they tell only part of the story. Royal Bank Financial Group believes that positive results for our shareholders are inextricably linked to our other stakeholders: employees, clients, suppliers, and the communities we serve. We all benefit from investing in their well-being. This page provides a snapshot of Royal Bank Financial Group's broader role vis-a-vis its other stakeholders.

clients

As service businesses, financial institutions depend on the satisfaction and loyalty of their clients to succeed. Maintaining and building on client satisfaction and loyalty form the cornerstone of our business strategy. As clients' demand for value increases, Royal Bank Financial Group sharpens its focus on quality and innovation to deliver the products and services that will retain and grow our client base. See pages 16-17, "Report on Quality and Innovation."

employees

In 1996, we invested approximately $90 million in employee training and development programs to help employees maintain leading-edge skills in a rapidly evolving marketplace (see pages 16-17 for impact of training on quality of client service). ▸ Ninety-three per cent of management employees and 87% of other employees are shareholders through Royal Employee Savings and Share Ownership Plan. ▸ Employees at all levels are eligible for annual variable compensation through a Quality Performance Incentive (QPI) plan which is based largely on the bank's return on equity and the individual employee's performance.

communities

We contribute to the well-being of the communities in which we do business through our roles as employer, purchaser, investor and donor. For instance, in 1996 we employed more than 54,000 people, with a payroll of $2.5 billion. ▸ We purchased more than $1.4 billion worth of goods and services from hundreds of suppliers. ▸ The bank's total income and other taxes in 1996 were more than $1.3 billion. ▸ We committed capital to a series of programs to stimulate economic growth in Canada (see page 3, "Fuelling the New Economy"). ▸ We donated $16.7 million to 1,500 charities across Canada, mostly in health and welfare, education and federated appeals. ▸ Employees donated $2.5 million to the Royal Bank Employee Charitable Trust Fund which benefits United Way, Centraide and other select organizations.

DESIGN Nolin Larosée Design Communications, Montreal ILLUSTRATIONS Philippe Béha, Nina Berkson, Normand Cousineau, Gérard Dubois, Jody Hewgill, Marc Mongeau
TYPOGRAPHY Centre Typo, Montreal PRINTING Matthews Ingham & Lake Inc., Toronto

ROYAL BANK
OF CANADA

"We continue to believe that Royal is the strongest of the Big 5 Canadian banks and should continue to trade at a price to book premium relative to the other banks. In the future, we are looking for the bank to have the highest sustainable ROE of approximately 18% as it continues to concentrate on areas of competitive advantage including retail banking and brokerage, and continues to manage its capital prudently."

ARTHUR SOTER / NIGEL DALLY, MORGAN STANLEY, DECEMBER 2, 1996

"We feel that Royal Bank is Canada's premier banking institution with exceptional franchises in investment banking, retail banking, wealth management and mutual funds."

KEVIN CHOQUETTE, LÉVESQUE BEAUBIEN GEOFFRION, NOVEMBER 21, 1996

PRINTED IN CANADA
IMPRIMÉ AU CANADA